

Public Utilities

FORTNIGHTLY

Volume XLIV No. 5



September 1, 1949

IS THE TVA A YARDSTICK FOR OTHER AUTHORITIES?

By T. N. Sandifer

« »

Trackless Trolleys and the Electric Business

By Roscoe Ames

« »

Expansion in the Southland

By David Markstein

« »

Who Wants Socialization of the American Power Industry?

Part II.

By Herbert Bratter

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Public Utilities

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VOLUME XLIV

SEPTEMBER 1, 1949

NUMBER 5



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PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

Publication OfficeCANDLER BLDG., BALTIMORE 2, MD.
Executive, Editorial and Advertising Offices . .MUNSEY BLDG., WASHINGTON 4, D. C.

Entered as second-class matter April 29, 1915, under the Act of March 3, 1879, at the Post Office at Baltimore, Md., Dec. 31, 1936. Copyrighted, 1949, by Public Utilities Reports, Inc. Printed in U. S. A.

Address all communications concerning the FORTNIGHTLY to the publishers at Munsey Building, Washington 4, D. C.

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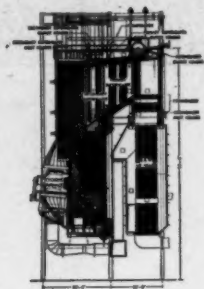
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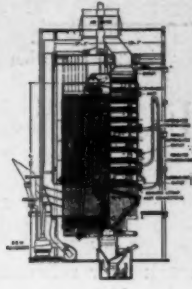


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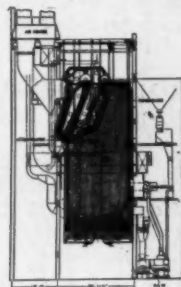
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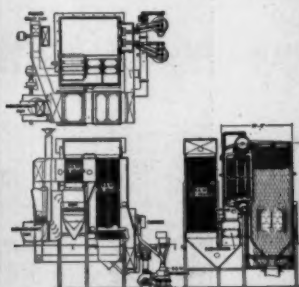
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Pages with the Editors

EVEN political critics of former President Hoover's seventy-fifth birthday address have to admit that the former President's *nunc dimittis* compares, for straightforward honest thinking, with any of the great farewell addresses which men in public life have made to mark their retirement from worldly affairs. With the question of Federal spending — and the danger of Socialism which inevitably follows in its wake — so close to the interest of the public utility industries, it was only natural that some of Mr. Hoover's remarks should seem particularly applicable to the Federal government's relations with public utility enterprise in recent years.

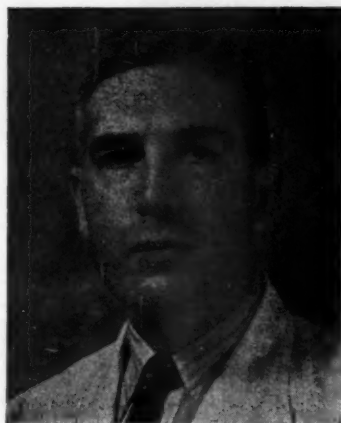
Most noteworthy was his comment on the natural wish of all American citizens that our country maintain a dynamic, progressive people. "But dynamic progress is not made with dynamite," Mr. Hoover remarked. "And that dynamite today is the geometrical increase of spending by our governments — Federal, state, and local."

THIS is the type of warning which so many of our politicians blithely disregard as they insist on driving our government into more and more expenditures for



HERBERT BRATTER

SEPT. 1, 1949



T. N. SANDIFER

public works and public services to catch the popular vote. As the former President so shrewdly observed, our danger comes not from a handful of avowed Communists, or their fellow travelers, who have accumulated enough nuisance value to attract the attention and suspicion they deserve.

OUR danger comes, strangely enough, from average American citizens who, while disbelieving in "compromises with Collectivism," still fail to "realize that through government spending and taxes, our nation is blissfully driving down the back road to it." In this issue, we conclude the 2-part series by HERBERT BRATTER, Washington, D. C., author of business articles, which deals with statements of public officials and others about the development of electric power by the Federal government.

IT is interesting that few of these officials walk right up to the plain and simple position that the electric power industry should be socialized, in whole or in part, by government acquisition. But the inferences, postulates, and conclusions that must be drawn from this constant drive in the direction of Federal investment in power-producing facilities

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—often in duplication of and in competition with existing private facilities—cannot be ignored. This is certainly a road in the *direction* of Socialism, even if it is not an officially labeled highway to that destination.

THE extinction of private enterprise in the electric power business in two of our states, with more perhaps coming up, the rise since 1933 in the margin of publicly produced power from less than 5 to almost 20 per cent of our national supply — these are tangible results, to date, which cannot be laughed off or kissed off by those who claim not to believe in Socialism but who apparently like to flirt with it.

* * * *

AND while we are talking about the basic problem of whether our Federal public power policies must logically lead to Socialism, we can also spare some thought to the proposition of whether public power operations by the old-line departments, such as the Reclamation Bureau, or the now over-all "valley authority pattern" is better fitted for various areas of our country.

IN this issue T. N. SANDIFER, Washington newspaper correspondent, has checked with old-line government agencies and agricultural groups to determine if they are content with the applicability of the Tennessee Valley Authority yardstick to other places. MR. SANDIFER's article, "Is the TVA a Yardstick for Other Authorities?" begins on page 267 of this issue.

* * * *

"TRACKLESS Trolleys and the Electric Business" is the title of an article by ROSCOE AMES, which begins on page 274. The steady trend in substitution of trackless vehicles for street railway transit service in our American cities raises the question of the electric utility industry's stake in retaining these transit companies as large-scale customers. According to ROSCOE AMES, the trackless trolley suggests a way for continuing close affiliation between these two major public utility industries which has always characterized their relations in the past.

SEPT. 1, 1949



DAVID MARKSTEIN

ALL over the Middle South — that region which embraces Louisiana, Mississippi, and Arkansas — public utility companies are going ahead full blast with their expansion programs. Gas, electric, and telephone companies are busy expanding their facilities to catch up with the rising demand for service in the southland. DAVID MARKSTEIN, New Orleans author of business reviews, whose article entitled "Expansion in the Southland" begins on page 281, has made a check on this activity.

* * * *

AMONG the important decisions printed from *Public Utilities Reports* in the back of this number, may be found the following:

THE Securities and Exchange Commission states its views on exemptions from competitive bidding where all or a part of a stock issue is involved. (See page 65.)

THE recoupment provisions of the New York statute, according to the court of appeals, make a court order holding up temporary rates improper. (See page 79.)

THE next number of this magazine will be out September 15th.

The Editors

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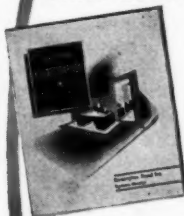
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HOW TO BALANCE THE REPEAL OF WARTIME EXCISE TAXES

The Federal government is still collecting excise taxes at the high wartime level of an extra billion a year, consisting largely of extra taxes on such essential utility services as monthly telephone bills, long-distance calls, and telegrams, train, plane, and passenger fares, as well as special levies on electric bulbs and other appliances. Representative Noah M. Mason, Republican, Illinois, congressional author of this article, suggests a way the repeal of such discriminatory taxes could be offset by the removal of another form of tax discrimination.

HIGHER TAXES MEAN HIGHER RATES

It is not generally realized that the government is making more money out of the operation of public utility companies than the people who own them. Sidney P. Allen, chief editorial writer for the **San Francisco Chronicle**, shows how the burden of higher utility taxes thus bears down on not only the utility investor but also the utility consumer and the utility employee, suggesting a community of interest.

THE REA CAPITAL CREDITS PROGRAM

Several years ago the Federal REA brought forth the "Capital Credits Plan" whereby REA co-op members agree among themselves that any payment above the cost of service shall be regarded as capital furnished by the member customers to the co-op. The co-op credits such patronage capital on its books for eventual return. Here is an analysis by Franklin J. Tobey, Jr., of the **Fortnightly** editorial staff, of the Capital Credits Plan and its purpose, apparent and otherwise.

WHAT THE STATE COMMISSIONERS ARE THINKING ABOUT

The recent annual convention of the National Association of Railroad and Utilities Commissioners in Cleveland brought forth a number of important reports and pronouncements on various problems of public utility regulation. Thoughts and comments of these commissioners naturally constitute informative reading for all interested in public utilities. Here is a selection of the most thought-provoking excerpts, in actual text, taken from the addresses and committee reports of the Cleveland meeting.



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—MONTAIGNE

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*Chairman of the board,
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EMERSON P. SCHMIDT
*Director of economic research,
Chamber of Commerce of the
United States.*

"Government is composed of men no wiser and no more public spirited than others."

PERRY BROWN
Commander, The American Legion.

"Individuals, communities, and states must learn again to stand on their own feet if this country is to be saved from going socialistic."

MILDRED McAFEE HORTON
Former president, Wellesley College.

"Healthy concern about serious problems is the badge of responsible maturity, but pity the man who faces every day and all the future with dismay."

ROYAL A. STIPES, JR.
*President, Illinois Chamber of
Commerce.*

"The Hoover Commission's economies, if enacted this year, offer the taxpayer one great opportunity to escape increased taxes or increased Federal debt."

HERBERT MORRISON
Deputy leader, British Labor Party.

"All business is the nation's business, and let that be understood. Private industry or finance that indulges in antisocial conduct will be pulled up fast and sharp."

WINSTON CHURCHILL
*Former Prime Minister of
Great Britain.*

"Socialism has never succeeded anywhere in the world. The Socialist policy of nationalizing our industries, so far as it has been carried out, has failed in every case."

EDITORIAL STATEMENT
The Wall Street Journal.

"The new political economists, in their hearts, have no confidence in the people. The major premise of their argument is that if people are left to run their own affairs, things get in a terrible mess. Everything must be managed by the experts."

E. E. POTTER
*Vice president, General
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"I believe that more competition is going to be good for our whole economy. Anything which restricts competition beyond a certain point, over too long a period of time, is dangerous to our economy. In spite of the growing morass of government regulations and controls, we still have a highly competitive economy in this country."

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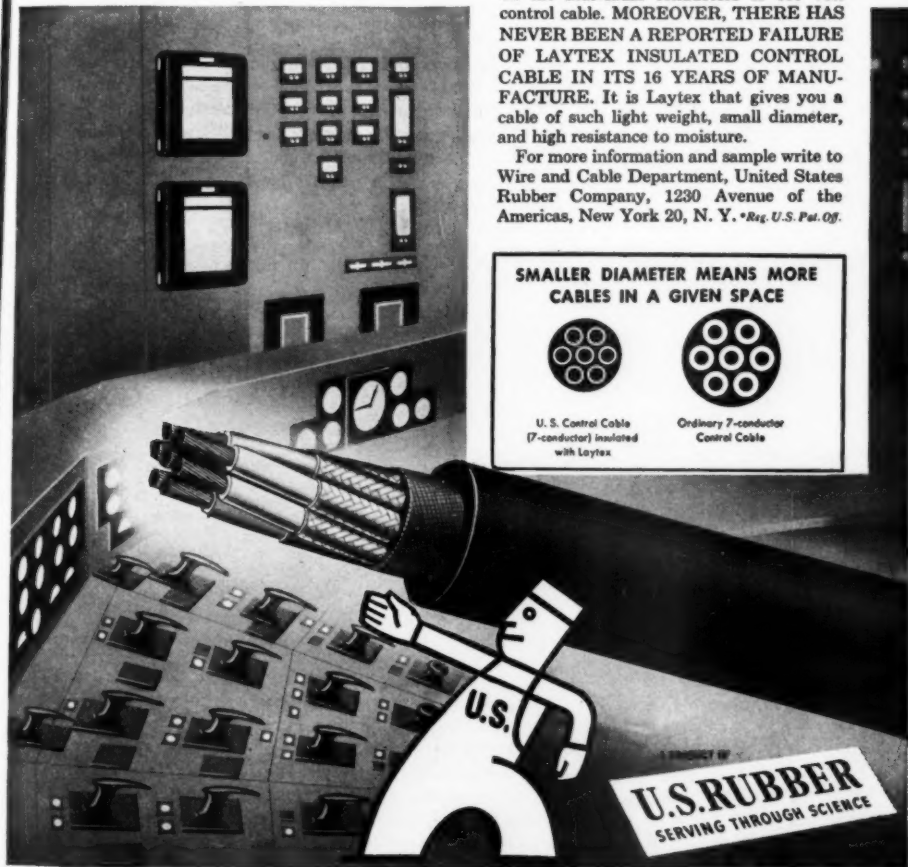
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HARLEY L. LUTZ
*Professor emeritus, Princeton
University.*

"We shall be well advised to realize that there is not enough fiscal adrenalin in more spending (by government) to offset the loss of blood from heavier taxation. Healthy rejuvenation will come only through a reduction of governmental burdens."

EDITORIAL STATEMENT
The Journal of Commerce.

"Much would be gained, indeed, if the President's chief economic advisers could convince official Washington that it may be possible to suspend the law of supply and demand for a while—but that no way has been found as yet to repeal it for good."

THOMAS S. HOLDEN
*Director, Commerce and Industry
Association of New York, Inc.*

"Federal sharing of deficit dollars with the states and with local governments during the depression emergency created the illusion that the Federal government has money resources which the states do not have, whereas the truth is that, to obtain cash, the Federal government can only tax the wealth and incomes of the residents of the forty-eight states."

IRA MOSHER
*Chairman, finance committee,
National Association of
Manufacturers.*

"The government is going to be in business a long time. What's more, the public wants the government in business, if you can believe the election results. Some folks still don't. They were the folks who were all set to kick the government off the team entirely. You know the kind; they still want to argue whether labor unions are here to stay."

RANDOLPH W. HYDE
*Treasurer, Carnegie-Illinois
Steel Corporation.*

"Having just experienced ten noncompetitive years, it's a reasonable conclusion that approximately one-half of our management is without a true competitive experience. An even greater percentage are without a firsthand encounter with a declining economy. To a degree, we have lost a generation of managers possessing those skills so important today."

HOLGAR J. JOHNSON
*President, Institute of Life
Insurance.*

"The possession of a basic public relations philosophy is of far greater importance than the actual techniques because a public relations consciousness will produce the techniques by second nature. On the other hand, those who concentrate on too high a development of techniques, overlooking the basic philosophy, may lose the objectives and misfire in the performance."

EDMUND EZRA DAY
President, Cornell University.

"Never was there a time in which the qualities of truly democratic leadership were more critically important. Except as the common people are wisely led, the will of the people may be worked in such a way as ultimately to wreck the interests of the people. We face, therefore, the necessity of getting here and now in a country dedicated as ours is to the principles of democratic rule, a clear understanding of the contribution which leadership must make if America is to remain both prosperous and free."

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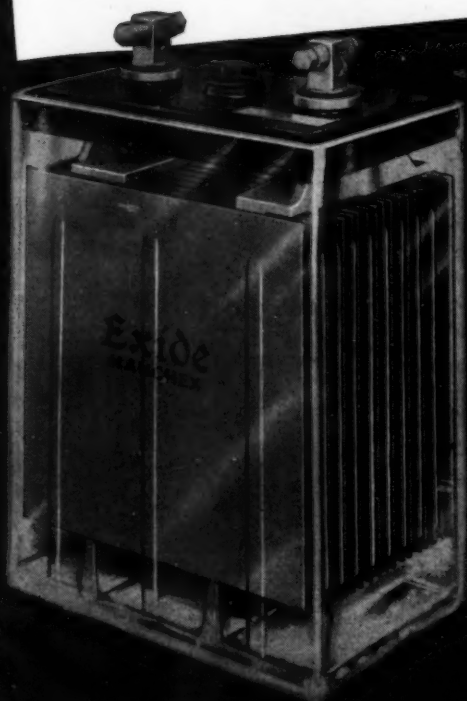
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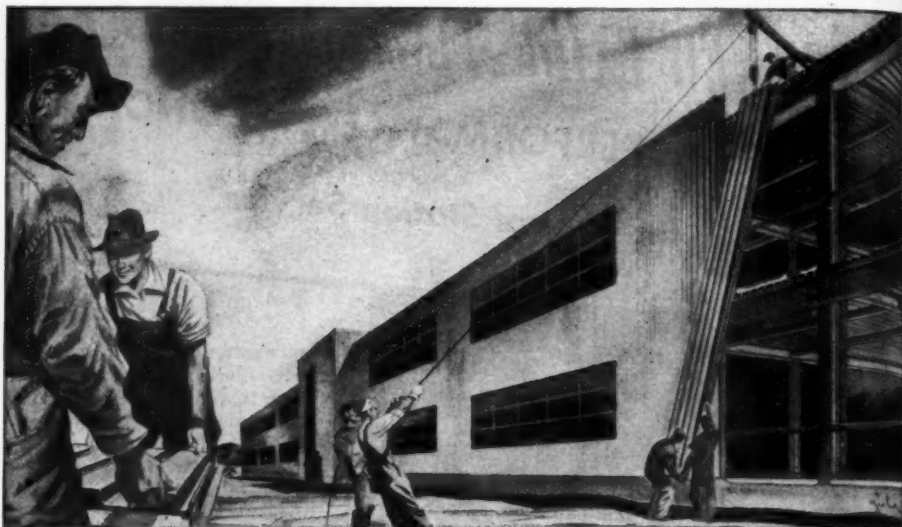
1888

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Philadelphia 32

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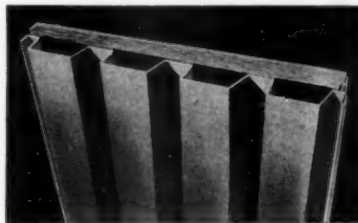
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Utilities Almanack



SEPTEMBER



1	T ^a	† U. S. Radio Manufacturers Association and Canadian Radio Manufacturers Association will hold joint board meeting, White Sulphur Springs, W. Va., Sept. 15, 16, 1949.
2	F	† Public Utilities Association of the Virginias will hold annual meeting, White Sulphur Springs, W. Va., Sept. 16, 17, 1949.
3	S ^a	† National Butane-Propane Association will hold annual meeting, St. Louis, Mo., Sept. 19-21, 1949.
4	S	† Michigan Independent Telephone Association will hold annual convention, Lansing, Mich., Sept. 22, 23, 1949.
5	M	† American Bar Association begins annual convention, St. Louis, Mo., 1949.
6	T ^u	† American Water Works Assn., N. Y. Section, begins meeting, Cooperstown, N. Y., 1949. † Midwest Gas Association school and conference begin, Ames, Iowa, 1949.
7	W	† Pacific Coast Gas Association begins annual convention, Santa Barbara, Cal., 1949. ☺
8	T ^a	† American Water Works Assn., Minn. Section, begins meeting, Minneapolis, Minn., 1949. † Western Assn. of Broadcasters begins annual meeting Banff, Alberta, Canada, 1949.
9	F	† New Jersey Gas Association will hold one-day annual convention, Spring Lake, N. J., 1949.
10	S ^a	† American Transit Association will hold annual convention, Atlantic City, N. J., Oct. 2-6, 1949.
11	S	† Rocky Mountain Electrical League begins fall convention, Estes Park, Colo., 1949.
12	M	† Instrument Society of America begins annual convention, St. Louis, Mo., 1949.
13	T ^u	† New England Water Works Association begins meeting, Dixville Notch, N. H., 1949.
14	W	† Missouri Valley Electric Association begins rural round table Kansas City, Mo., 1949.

Power under the Palms

Sarasota plant of the Florida Power & Light Company.

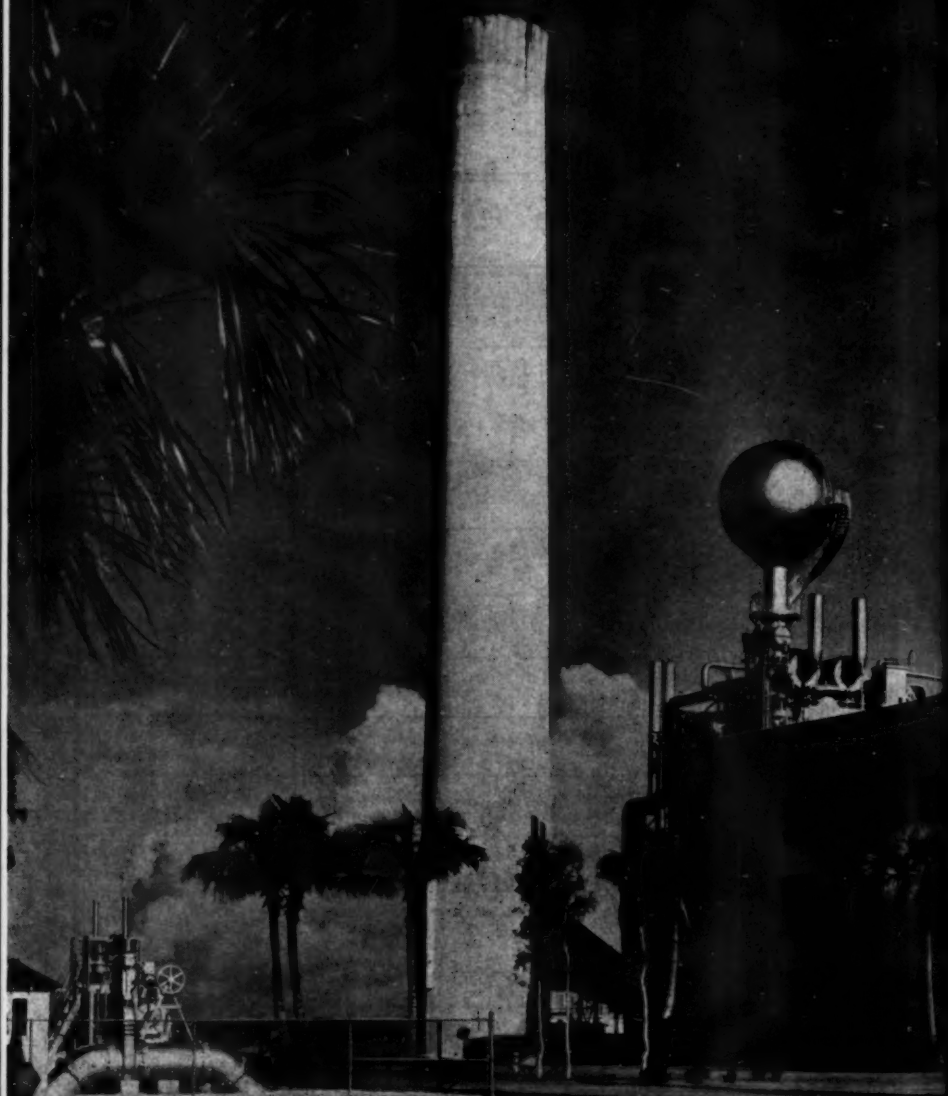


Photo by Florida News & Photo Service

Public Utilities

FORTNIGHTLY

VOL. XLIV, No. 5



SEPTEMBER 1, 1949

Is the TVA a Yardstick For Other Authorities?

Some spokesmen for river development apparently think so. At least they do not want regional setups in their states, if that means subjection to the same rigid policies that prevail in the Tennessee valley.

By T. N. SANDIFER*

PROPOSED new Federal river valley "authorities" may face launching by the administration in a different climate from that which greeted the Tennessee Valley Authority in its early days.

The changed atmosphere may greatly affect the actual conduct of such new development activities, and perhaps their scope. Support for such reasoning is found in certain background situations in TVA, and the fact that the latter agency is being quietly challenged

in some of its practices. There is also the fact that spokesmen for some areas, where valley development has been proposed, have said they do not want a regional authority in their states if it means being subjected to the same rigid policies they have observed in TVA administrative procedure.

The situation adds up to an apparent hole in the TVA dike, which that agency has been trying to plug since 1946, and so far has succeeded. TVA conceives itself as a quasi-autonomous government (subject to over-all congressional approval, of course), dedi-

*Technical editor and business journalist, Washington, D. C.

PUBLIC UTILITIES FORTNIGHTLY

cated to a social experiment which could only be carried forward successfully as long as TVA was autonomous. That much we have from its friends, and we get the same view of the agency's approach to its job, in the various fights which its spokesmen have had in front of congressional committees.

Thus, certain Federal programs are admitted to the TVA domain—price support operations are welcome, for instance; and other Federal spending activities are received over the borders, provided TVA is allowed to administer the funds. That may not be quite the language in which TVA representatives put the matter at Washington, but it is fairly evident in actual practice.

Not only from TVA, but from its friends, there is reflected the administrative approach in the valley that considers it essential that TVA enjoy a decentralized administration—another word for autonomy—so that it can make its decisions in the valley. In other words, no outside interference. This philosophy is applied on questions of flood control, soil conservation, reforestation, and others.

As one supporter of TVA put the matter, if there should come a time when all agencies of the government insist on operating in TVA, without reference to the unified command in the valley, it ceases to be TVA.

Thus TVA has its own personnel recruitment, apart from the Civil Service which passes civilian workers into other Federal employment. It has its own land acquisition procedure, and many other activities.

The constant problem at TVA is how to preserve this régime. And it is

just such policies that have caused those in other sections, where a similar authority may be contemplated, to say in meeting that they don't want it that way.

This philosophy has been set out in some detail here, because it is now under challenge from other Federal agencies, and beginning to be opposed actively from within the TVA area itself.

Congress was expected in this session to iron out the interagency difficulty mentioned, but did not do so. And now, confronted with this stalemate at Washington, people within the borders of TVA are taking matters into their own hands.

The situation is worth recounting as illustrative of a new public attitude that may be awaiting further attempts at Federal regional development. Welcome as these may be to the people concerned, if signs are read correctly, these future operations will be conducted on a different basis from that cited in the case of TVA.

SOME Federal activities, as stated, particularly those with any fair amount of benefit to dispense, are tolerated in the TVA area. Others are not. Among the latter is the Soil Conservation Service. It may be strange that one Federal agency cannot go into a territory marked off by another such agency for its own, and do the job it was set up to do by Congress.

That happens to be the case, but it is no stranger than the reasons back of TVA's opposition. Soil conservation agents can enter TVA's domain and conduct operations, but only under TVA command, and as TVA wants the job done—not as the SCS sees it. TVA

IS THE TVA A YARDSTICK FOR OTHER AUTHORITIES?

is willing to have technical assistance furnished in this manner. But there is a positive difference of opinion as to how good a job TVA is doing in this field.

There are authorities on the subject who do not believe TVA has made effective use of its opportunity there, and they see better progress in actual soil conservation in other areas, where the service operates unhampered by any regional administrative viewpoint. Thus, a proposal sometime back that Soil Conservation Service technicians be supplied to work in the valley, but under county agents there, was rejected. Opposition also was registered to proposals that these conservation experts be placed under TVA when operating in the valley.

Instead, sentiment in a recent closed meeting where the matter was being considered, primarily by soil conservation men, was in favor of TVA permitting farmers in the valley to organize the type of soil conservation districts recommended by SCS.

THAT is the real nub of the situation. TVA doesn't want farmers in the valley organizing soil conservation districts along the lines recommended by SCS.

The reason is that such districts are, by law, semiautonomous themselves. A soil conservation district can choose leadership from its own ranks. It can

call in state or Federal aid from other agencies. In short, it can do just what friends of TVA have said TVA doesn't want, because if it happens, there wouldn't be TVA any more. So, since 1946, TVA has opposed the type of soil conservation program which is being operated in other parts of the country, and, as some experts believe, to better effect than similar projects in TVA itself.

But, there is growing evidence that some communities in TVA are also tiring of this TVA refusal to admit the soil conservation people, on the latter's terms. They have concluded in favor of the regular soil conservation program.

In the past, there was apparently nothing much they could do about it.

Now, however, in those sections of North Carolina coming within TVA, the people are doing something. Some districts have been organized, according to reliable authority, with a sufficient number of actual farmers in their ranks, to represent the sentiment of the community.

Petitions are coming to Washington from such groups, asking formal recognition by Soil Conservation Service, which would mean, TVA or not, the SCS would be required, under the law, to work with those districts. Chances are believed excellent that the new groups will be so recognized. Thus, a start has been made.



Q "SOIL conservation agents can enter TVA's domain and conduct operations, but only under TVA command, and as TVA wants the job done—not as the SCS sees it. TVA is willing to have technical assistance furnished in this manner. But there is a positive difference of opinion as to how good a job TVA is doing in this field."

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OTHER states in TVA are believed ready to take a similar course. This is a new sign of independence, it is true. But, as pointed out earlier, TVA came on the scene under different conditions than those prevailing today. In the depression era, the willingness of Federal authority to "take over" was everywhere in evidence, and the willingness of the public to accept such authority was equally plain.

Today, whatever they feel about TVA, those who see certain rural development activities being conducted in a way that looks better than it does in TVA, are more likely to speak out—and are speaking.

The departments are speaking up, too. At one stage in the interagency dispute, for instance, one top official said pointedly that his department was unable to accept the viewpoint that any essential difference exists in the problem of TVA and over the country as a whole, as respects that particular matter.

This is heresy in TVA. It challenges TVA's whole approach—namely, that its regional development job was so inherently new; such an experiment, that it had to be done just so, and no other way.

Congress may have to settle such issues not only for TVA—in fact, the revolt now blooming in North Carolina may force the issue along—but for the authorities that may come later. The difference of viewpoints is already apparent in certain developments in TVA as compared with other sections, according to some expert observers who have reported.

THESE have professed to find the engineering phases of the TVA

program far ahead of agricultural phases. As one such authority said, he saw very little strip-cropping in the valley, but one example that struck him as excellent, he attributed to the influence of similar practices in a near-by Soil Conservation district in Virginia, where doubtless it had been observed by valley farmers.

Whereas the SCS specialized in its field, another expert visitor reported, he found a county agent in TVA, who was expected to lay out a soil conservation plan, who was, in fact, a specialist in animal husbandry. Which was quite a different field.

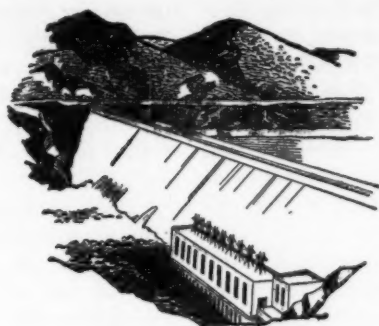
However, the issue is a broader one than mere settlement of differences between TVA and Soil Conservation Service, or any other one such agency.

The National Resources Planning Association, a nonprofit and nonpolitical group for economic surveys, has just suggested that TVA may hold many features for incorporation in a much larger program of regional development in the South; may, in fact, be worthy of complete duplication in other such experiments.

"The Tennessee Valley Authority," said this agency, "represents the most ambitious and far-reaching attempt the Federal government has ever made to bring about the coordinated, integrated, long-range conservation and development of the natural resources of a large area."

"The success of the TVA in its own area," said the association ("The Impact of Federal Policies on the Economy of the South"), has suggested to some the possibility of undertaking similar projects in other parts of the South."

The association reported that "the



Duplication of TVA

"THE National Resources Planning Association, a nonprofit and nonpolitical group for economic surveys, has just suggested that TVA may hold many features for incorporation in a much larger program of regional development in the South; may, in fact, be worthy of complete duplication in other such experiments."

peculiar contribution of TVA has been the unique pattern of governmental activity which it has established in the field of resources development."

"It has coordinated many activities of Federal, state, and local governments, and has eliminated overlapping. It has brought about an integrated development of resources which would not have been possible under any other arrangement."

As Gordon Clapp, chairman of the board, TVA, has expressed it, in doing this "TVA has developed and used procedures which are admittedly different in many respects from the traditional practices of many government departments."

Mr. Clapp rejects the view of other agencies that there is no "essential difference" between the situation in the

Tennessee valley and other areas of the country, as respects federally directed resource development.

And he points out, "This is the only area where a regional agency exists."

"In this area alone the farmer now receives the services of the county, state, and Federal programs through a single channel."

The idea that there is no such difference, says Mr. Clapp, "is a stock canard used by those who are troubled by the mere existence of TVA and irritated by the fact that it is different, and successfully so." Also, "it is heard frequently from those who support the TVA idea in principle but are enamoured of their specialism more. The Corps of Engineers and their partisans argued that this river should be developed by the same agency charged with development of other rivers.

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"Every year we are assaulted at one point or another with the cry that 'TVA should not be different.'"

It is the view of TVA officials and of some congressional friends that the TVA Act specifically establishes such autonomy, and provides for the channeling of other Federal activities over TVA desks.

THIS emphasizes the question which must inevitably be settled in any further river valley region development programs, as to how far the TVA pattern will be followed, or accepted by those who are most closely concerned.

Representatives of certain eastern river areas have already made themselves plain in meeting. The restiveness of some TVA communities at restraints formerly tolerated is becoming manifest at Washington, if not TVA.

The resentment of politically influential agencies of other branches of the government at being excluded from doing their work in TVA except on the pattern, and under domination of TVA authorities or their agents, is no longer a secret in Washington.

A typical reference to the situation came up in hearings on the new agricultural appropriations. A Soil Conservation Service witness was being questioned about the effectiveness of the program. A member of Congress, referring to Tennessee, asked the witness if the Tennessee area was not handled by the TVA.

"That is right," the witness replied. "There has not been much encouragement of soil conservation districts within the area of the Tennessee Valley Authority."

The situation was evidently given extensive consideration by the Hoover

Commission in its recommendations for making government agencies more efficient. This commission proposed that the Soil and Water Conservation Service, a somewhat broader activity from the present SCS, be authorized to administer Federal programs under this heading, and said:

"Since much soil conservation work is of a regional nature that requires coördination in planning, and since regional and state programs require integration with a national conservation plan, the responsibility for coördination will be in this service.

"It will determine within the framework of applicable laws the basis and standards for, and will be responsible for, administration of such agricultural conservation program payments as are authorized . . ." etc.

ALL of which is not to say that TVA spokesmen have accepted the views of outside agencies or experts that their job isn't being done just exactly as it should be. On the contrary, TVA feels that its own way is best, and makes no bones of its views whenever the issue has risen.

In consideration of future region development programs, it can be expected that the example of TVA will be strongly urged by proponents of this type of Federal activity.

The National Planning Association report, passingly mentioned here, in fact, recommends full development of the water-power potential of the southern states, as a fundamental in bringing that region to full realization of its industrial possibilities. On the whole, the report finds rather in favor of TVA in its rôle of developer; the commission infers it has not over-

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looked some aspects of TVA accounting practices, and it appears to recognize the question that relative taxation of private utilities and TVA operations complicates the situation.

Proponents of expansion of Federal regional development doubtless will use this, as well as other outside reports and surveys, when the time comes. And

other Federal agencies, it may be assumed, will attempt, as they are now trying, to insure that their own rôles will not be shut out. To the extent that these other agencies hold a popular interest, it may be expected that serious efforts will be made to shape future development programs more to the demands of modern public sentiment.



"BUSINESS management has the burdensome responsibility which arises out of the very nature of its job, its collective power, and its position of trust to operate business in such a manner that it will serve to the best advantage the best long-range interests of the public at large. And if it fails, through ignorance, negligence, incompetence, or greed, the public will demand change and may, as history so clearly shows, grasp the first or most plausible change at hand without regard to whether that change is progressive or retrogressive.

"This is a very large order for management and demands a change in our manner of executive training. Top management must have an intimate working knowledge of economics, a working knowledge of social forces, and must be possessed of a strong social conscience.

"Do not misunderstand. Management cannot take all of the responsibility. There are other forces in our society. But management collectively is the most powerful single force; is or should be, the smartest; is, with the agriculturists, the most practical; knows how to get things done; and is in a place of power.

"Business management must, because of these things, take the lead or we shall have a different economic and social system.

"But here is the heartening thing: The great emergency phenomenon in the field of management is that enlightened management is becoming aware of the full breadth of its responsibilities to society."

—THOMAS ROY JONES,
President, ATF, Inc.



Trackless Trolleys and the Electric Business

The steady trend in substitution of trackless vehicles for street railway transit service in our American cities raises the question of the electric utility industry's stake in retaining these transit companies as large-scale customers. The trackless trolley suggests a way for continuing close affiliation between these two major public utility industries which has always characterized their relations in the past.

By ROSCOE AMES*

EVERYBODY in both the electric utility and transportation industry, who is familiar with the good old days in both lines of business, knows that there has always been a close community of interest between the two. Very often the electric utility companies sprang into existence as offshoots from street railway company parentage. In many cases these electric companies were created primarily to generate power for the streetcars, and, incidentally, sell the surplus to the public. In some cases these subsidiary children grew up and flourished to such an extent that they were able to take care of, or offset, the diminishing earning power of their parents in recent years.

But the trend toward substituting automotive vehicles for street railway

cars, which is still continuing, threatens to divorce this happy relationship of once mutual profit. Where streetcar companies switch to automotive bus equipment, powered with gasoline or Diesel engines, the electric utility stands to take a loss on the power load once used by the streetcars. Substitution of trackless trolleys makes it possible to continue much of this load and, also, make considerable use of standing equipment, such as trolley poles and wires. And what is more important (from the standpoint of public interest and industry economics), the records seem to show that the trackless trolley has a better chance of doing this at a profit, compared with other types of equipment.

This is no special plea for any particular type of manufactured equipment. It is merely a suggestion that the

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TRACKLESS TROLLEYS AND THE ELECTRIC BUSINESS

electric utility industry might well take a look at the record and consider whether it is worthwhile to go after the trackless trolley business, as a matter of electric industry interest.

Of course, in this present day of somewhat politically emphasized "power shortage" the loss of the former traction load, through substitution of automotive equipment for streetcars, may not seem so important. Yet the electric industry, judging by recent forecasts and speeches of its leading executives, already has such a large amount of plant expansion "in the works" that new large-scale customers will be welcome in many areas by the end of 1950. Many power companies are now active-

ly training and enlarging their sales forces. It would seem to be none too early, therefore, for the electric industry to consider the systematic development of a relatively secure large-scale class of customers for power—via trolley coaches.

The Financial Record

WITHOUT hand picking any figures, it is submitted that the following financial statistics of three transit systems speak for themselves. They are the Kansas City Public Service Company, the Brooklyn Trolley Coach and Bus Division of the New York City Board of Transportation, and the Municipal Railway of San Francisco.



KANSAS CITY PUBLIC SERVICE COMPANY CONSOLIDATED INCOME ACCOUNT FOR THE YEAR *Ended December 31, 1948*

OPERATING REVENUE:

	<i>Railway</i>	<i>Motorbus</i>	<i>Trolley Bus</i>	<i>Together</i>
Passenger	\$5,662,879.94	\$4,372,889.78	\$2,996,662.35	\$13,032,432.07
Other	199,743.83	66,295.71	15,688.82	281,728.36
	<u>\$5,862,623.77</u>	<u>\$4,439,185.49</u>	<u>\$3,012,351.17</u>	<u>\$13,314,160.43</u>

OPERATING EXPENSE, excluding employees' participation in net income:

Way and structures	\$ 499,130.61	\$ 80,841.71	\$ 73,162.59	\$ 653,134.91
Equipment	370,357.22	557,438.16	266,302.48	1,194,097.86
Motive power (electricity and gasoline)	623,677.78	524,174.60	291,171.17	1,439,023.55
Conducting transportation	1,914,239.63	2,276,822.19	1,024,395.19	5,215,457.01
Traffic	38,206.57	23,033.30	15,771.32	77,011.19
Provision for injuries and damages	555,921.65	241,717.59	248,140.83	1,045,780.07
Provision for depreciation	577,017.97	410,130.25	187,032.58	1,174,180.80
Taxes, other than taxes on income	297,936.86	221,199.58	145,711.72	664,848.16
General and miscellaneous	459,139.72	343,290.78	222,777.68	1,025,208.18
	<u>\$5,335,628.01</u>	<u>\$4,678,648.16</u>	<u>\$2,474,465.56</u>	<u>\$12,488,741.73</u>

OPERATING INCOME, before employees' participation

	<u>\$ 526,995.76</u>	<u>\$ (239,462.67)</u>	<u>\$ 537,885.61</u>	<u>\$ 825,418.70</u>
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NONOPERATING INCOME

	5,368.02
	<u>\$ 830,786.72</u>

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MUNICIPAL RAILWAY OF SAN FRANCISCO FINANCIAL RESULTS OF OPERATIONS BY TYPES OF SERVICE • Fiscal Year Ended June 30, 1948

	<i>Electric Streetcar</i>	<i>Motor Coach</i>	<i>Trolley Coach</i>	<i>Cable Cars</i>	<i>System Total</i>
Total Revenue	\$12,659,719.92	\$4,444,594.57	\$662,250.93	\$555,016.49	\$18,321,581.91
Operating Expenses ..	\$11,219,353.52	\$4,772,104.38	\$490,052.98	\$594,960.31	\$17,076,471.19
Depreciation	744,780.25	283,451.77	40,185.27	19,424.16	1,087,841.45
Accident Reserve	788,330.40	432,664.82	63,960.13	76,900.95	1,361,856.30
Interest	81,225.93	8,143.88	1,873.45	4,210.23	95,453.49
Nonoperating Expense ..	133,525.97	46,658.70	94.30	9,964.99	190,243.96
Taxes	17,552.68	—	—	—	17,552.68
Total Deductions ...	\$12,984,768.75	\$5,543,023.55	\$596,166.13	\$705,460.64	\$19,829,419.07
Net Income	(\$325,048.83)	(\$1,098,428.98)	\$ 66,084.80	(\$150,444.15)	(\$1,507,837.16)
	(Loss)	(Loss)	(Profit)	(Loss)	(Loss)
Bond Redemption	100,000.00	—	—	—	100,000.00
Surplus or Deficit ..	(\$425,048.83)	(\$1,098,428.98)	\$ 66,084.80	(\$150,444.15)	(\$1,607,837.16)
	(Loss)	(Loss)	(Profit)	(Loss)	(Loss)



Two things are worthy of note in this Kansas City statement: First the comparison of the motorbus operating *deficit*, with the more than half-million operating *income* of the trolley bus. The second noteworthy comparison is the percentage of operating expenses, incurred in the purchase of electricity in the railway department, as compared with the trolley bus. In both cases, the ratio is similar—the bill for electricity being a little more than an eighth of the entire operating expense account for the railway department and a little less than an eighth of all expenses of the trolley bus department. The implication here is that trolley busses will make just about as good a customer for the sale of electric power as the streetcars which they may supersede.

The striking feature about the foregoing financial report is the loss shown in everyone of the four departments of the San Francisco Municipal Railway department system *except* the trolley coach department, which shows a 10

SEPT. 1, 1949

per cent profit out of the total revenues.

It goes without saying that the prospects of the trolley bus being a successful and profitable customer for the electric power industry is just as important as the chances for it becoming attached as a customer at all. Unprofitable operations do not mean a very secure patronage, over the long run.

Must the Tracks Come Up?

As for the continuing trend in substitution in trackless vehicles for street railway transportation, there can be no doubt. Postwar downtown congestion in most American cities, as well as the expanding suburbs and satellite communities resulting from postwar housing construction, have increased the pressure on transit companies and municipal authorities to do away with all factors contributing to traffic bottlenecks. Vehicular parking and inflexible streetcar trackage are certainly prime factors.

Our automotive revolution did not

TRACKLESS TROLLEYS AND THE ELECTRIC BUSINESS

change city streets. The streets of the big city and the streets of the little town remained the same. Instead of being made over they were macadamized. As more and more cars were pumped into downtown areas, slowly the arteries began to harden.

And today, the average vehicle speed in congested streets is 3 miles an hour—7 miles an hour slower than Old Dobbin used to go!

Many Americans, especially those who live in and around cities, accept the ever-increasing trend to the suburbs as a matter of course. Traffic engineers and city officials, on the other hand, do not treat it so lightly. Charles M. Noble, New Jersey state highway engineer, feels that if this exodus isn't curbed, "stagnation, decay, and finally bankruptcy" will result. He stated not long ago: "Investment in buildings, industrial plants, homes, parks, schools, water supply, and all improvements which make up modern metropolitan areas runs into billions of dollars. To jeopardize this high investment is unthinkable."

Guy Hecker, executive manager of the American Transit Association, reminded city officials recently that they must face the sad fact that "remedies used to ease the traffic problem have not worked." Despite the tremendous sums ladled out in the past, he added, traffic congestion still continues to cripple the life stream of the cities.

Is there an alternative? Yes, say city planners. They sum it up this way: "Cities must encourage moving people not vehicles. In other words, people must be wooed into riding by transit instead of by private auto on car-choked city streets. The argument is

backed up by some convincing figures. The average auto, according to a national survey, carries only 1.7 persons. This means that two-thirds of the available auto space is going to waste. Twenty-nine cars, therefore, are needed to carry but fifty persons. These fifty people could all be carried in one public transit vehicle; whereas a person in a moving auto takes up 500 feet of street space, the same person in a moving bus, trackless trolley, or streetcar uses but 70 square feet.

Many motorists ask: "Why don't cities build more garages and parking lots?" The answer is that there is little space available for such construction. That which is available usually is prohibitively priced. In cities where downtown property has been turned over to parking concessions, the actual number of cars which can be accommodated makes but a meager dent.

Certain measures taken by New York to curb traffic congestion are worth noting. About two years ago, city hall announced there would be no more curb parking in much of midtown and downtown Manhattan. The purpose of the ban was to speed up traffic on such important arteries as Fifth avenue and Broadway.

It has proved to be quite successful although many streets still get gummed up with discouraging regularity, due mostly to inadequate enforcement of traffic regulations.

The old World's Fair parking lot in Flushing Meadows has been opened to Manhattan-bound commuters. Drivers are asked to park here, free of charge, and take a subway the rest of the way to town. This plan, dubbed "outskirt" or "fringe" parking by traffic experts,

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is regarded as sound, because it filters off the cars before they reach the congested zones.

San Francisco has long been badgered by traffic snarls and inadequate public transit. Shortly, both may be things of the past. The citizens can be given credit for attempting to wipe out the city's congestion.

About a year ago, San Franciscans were asked to vote "yes" or "no" whether they wanted a \$20,000,000 transit modernization program put

in the works. The ballots showed they wanted the program—overwhelmingly.

The city is now in the process of buying 411 trackless trolleys, 55 streamlined streetcars, and about 200 motorbuses. Some day, soon, San Francisco residents will be riding from the water front to the top of Russian Hill in up-to-date, comfortable transit vehicles.

Here's what Walter H. Blucher, top-flight planning engineer and executive director of the American Society of Planning Officials, says:



BROOKLYN TROLLEY COACH AND BUS FIGURES FROM "TRANSIT RECORD" MAY, 1949

(OFFICIAL PUBLICATION OF NEW YORK CITY BOARD OF TRANSPORTATION)

Trolley Coach—*September 16, 1948, to February 28, 1949

Bus—July 1, 1948, to February 28, 1949

REVENUES AND EXPENSES

	Per Cent of Operating Revenue		Cents Per Revenue Vehicle Mile	
	Brooklyn Trolley Coach	Brooklyn Bus	Brooklyn Trolley Coach	Brooklyn Bus
Operating Revenues				
Passenger Revenue	99.43	99.31	67.12	55.51
Advertising and Other Privileges ..	0.39	0.38	0.27	0.21
Miscellaneous	0.18	0.31	0.12	0.18
Total Operating Revenues	100.00	100.00	67.51	55.90
Operating Expenses and Rentals				
Maintenance of Way and Structures	1.08	0.58	0.73	0.33
Maintenance of Equipment	9.95	35.01	6.72	19.57
(Incl. Inspection Labor)				
Deferred Maintenance	—	1.17	—	0.65
Power (Fuel and Lub. for Busses) ..	6.90	8.51	4.66	4.75
Operation of Vehicles	51.69	56.81	34.90	31.75
Injuries and Damages Expended ...	0.52	6.08	0.35	3.40
Injuries and Damages Deferred	7.05	3.89	4.76	2.18
General and Miscellaneous	3.98	5.78	2.68	3.23
(Incl. Traffic)				
Total Operating Expenses	81.17	117.83	54.80	65.86
Operating Rentals	—	2.60	—	1.46
Total Operating Expenses and Rentals	81.17	120.43	54.80	67.32
Income from Operation	18.83**	D20.43†	12.71**	D11.42†
Nonoperating Income Interest	0.08	0.08	0.05	0.05
Excess of Revenues over Operating Expenses	18.91**	D20.35†	12.76**	D11.37†

*Start of Trolley Coach Operations. **Profit. †Loss.

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TRACKLESS TROLLEYS AND THE ELECTRIC BUSINESS

"NOT long ago, the two newspapers in Milwaukee took a crack at me because I suggested that careful consideration ought to be given to other forms of transportation before spending a very large sum of money for the construction of two expressways. The situation in Milwaukee is similar enough to that of any other American city to warrant a brief description. In that city, the two newspapers are strongly in favor of the construction of two expressways. I do not know how much those expressways will cost, but I have seen estimates running as high as \$100,000,000. I do not know what the city's share of the cost will be, but I have been told that Milwaukee's share might run as high as \$40,000,000.

"Here is a conservative city which previously operated on a 'pay-as-you-go' basis. . . .

"The policies that prevailed during the days of the horse-drawn vehicle still prevail in some cities. Transit companies are forced to maintain the space between the tracks, although the space is usually filled with automobiles. Automobiles line the tracks ahead of streetcars, and double park, preventing their movement. So, although we have a modern streetcar which can move rapidly, it isn't permitted to move rapidly, and half of its usefulness is thus destroyed. As a consequence, the transit companies have gone over to trolley coaches and busses. There have been many rationalizations which from their standpoint are sound. The original cost is inexpensive and, particularly in the case of electric trolley coaches, maintenance and operation are comparatively inexpensive, and there is greater freedom of movement.

"I HAVE never owned a dime's worth of stock in a transit company, and I never will, not because I don't believe in mass transportation, but because too many of the people in charge of mass transportation are too timid and lack imagination. All they can see is the past and its failures, rather than the future and its opportunities. Sometimes I find it hard to blame them, because the inconsistent policies followed today by cities, and the people of cities, certainly lead to frustration."

Public conveyances are being made more efficient and attractive, too. In the field of surface transit, manufacturers of silent electric trolley coaches are making big strides. This newest of public vehicles has always won favor because it is quiet and does not produce objectionable engine fumes. Many of the coaches that serve Atlanta, for instance, are completely air-conditioned. In Cincinnati FM radios, designed to bring the transit rider music while he travels, have been installed. In other cities, the builders have installed really high standee windows, so that the straphanger won't have to stoop to see his stop.

The seats in some coaches are upholstered with Velon, a special plastic fabric that is long-wearing and decorative. Even the raucous signal buzzer has given way to melodious chimes in many trackless trolleys.

While such improvements in transit vehicles have been a long time coming, they bid fair to make riding in the future more pleasant.

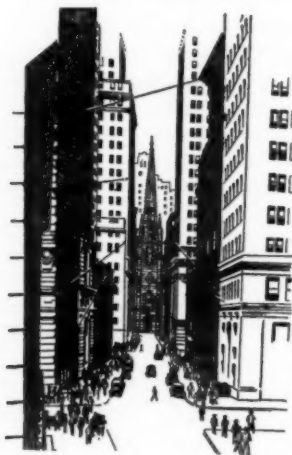
IF our cities were flexible affairs, easily adaptable to changing population habits, they could be remodeled to ac-

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commodate the vast influx of autos. But streets can't be widened and buildings shoved here and there at the whim of a city planner.

This means traffic—the lifeblood of our cities—must be made to flow through the streets as they are laid out today.

It looks like the solution—from the standpoint of utility transportation—lies in two alternatives—automotive busses or trackless trolleys. From the standpoint of the electric power industry it would seem to be a matter of practical judgment to support the latter solution.

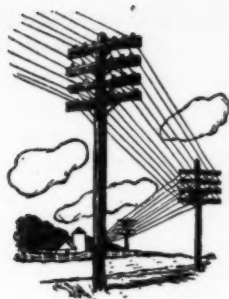


Traffic Congestion Is Nothing New

Two thousand years ago, the streets of Rome were so snarled with traffic that the emperor of the time banned all except government chariots from the Forum area. Records do not show how effective the ban was.

During the reign of Louis XV it became fashionable for the noblewomen to drive their own carriages through the streets of Paris. It seems a commentary on the lady driver of that day, that accidents and congestion became so intolerable that Louis and his ministers decided to do something about it. All women under thirty years of age were forbidden to drive. Results were most gratifying, since few would own up to the age limit.

The "rule of the road" for vehicular traffic has grown from custom too old for reliable record. In Great Britain and Ireland "keep to the left" was a matter of "common law" which became statutory law by the Highways Act of 1835. Reason for the left-hand selection has been variously explained as keeping the horseman's "whip hand" free, or the "sword hand" free, in the days when knighthood was in flower. It does not explain why in every other European country (except Portugal, Sweden, and the Balkans) the rule is "keep to the right"—as it is in the United States.



Expansion in the Southland

How the surging demand for public utility service is being met and financed by privately owned companies operating in Louisiana, Mississippi, and Arkansas.

By DAVID MARKSTEIN*

WHEN work begins in September on a \$9,000,000 unit of a new \$36,000,000 generating station for Louisiana Power & Light Company, located above New Orleans at Nine Mile Point on the Mississippi river, one of the final legs of a tremendous expansion program will be under way. The program was instituted in 1945 to meet the vastly increased demand of a region where incomes, industrialization, and the cry for increased electrical and fuel service, has been as large—and perhaps larger—than that of any other section of the country.

The region is popularly called the Middle South. It embraces the states of Louisiana, Mississippi, and Arkansas. When the war brought heavy industry in numbers to this section of the Southland for the first time, it brought

a corresponding heavy demand for power, light, and gas. The industries stayed after the war ended. More industries of all kinds have moved down South (as New England towns can testify bitterly).

Statements have been made by prominent public officials that the high cost of power has been the primary cause of textile mills for leaving New England. According to a study recently made for the New England Council's Committee for Economic Development by Charles T. Main, Inc., there is little basis for such conclusion. From these figures it seems obvious that cotton and woolen mills are not leaving New England because of the savings in power obtainable in the South Atlantic states—which is only an infinitesimal fraction of operations variably offset by more important factors such as transport, labor, and marketing costs. What is more this

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type of mill is not moving into the TVA territory.

BUT aside from the fact that the cost of power is not a determining factor in plant location, a good many plants have moved to the Middle South. They have, accordingly, created a power load which must be taken care of. This means not only an increase in industrial demand but more electrified homes for the workers who are bringing home larger pay envelopes, some of which is spent for more appliances. This in turn means more use of electricity and gas.

Even the rural areas have been electrified. In Louisiana alone, more than 85 per cent of the state's farms are now served by power lines. In all, 80,-800 farms have electricity today. More than 23,000 of them get it from Louisiana Power & Light Company. (Some six other private utilities serve the rest, along with thirteen rural electrical coöperatives.)

To meet this need, the four electric power and gas utilities serving the region have put out some \$174,786,797 between 1945 and the end of 1949. Telephone service has been expanded in proportion—in New Orleans alone, eight new exchanges have been added to care for the increased subscribers. Small phone companies and other light and gas utilities, such as Gulf States Utilities, have also spent in proportion. Gulf States this year began construction of a new steam and power generating plant in Baton Rouge to serve that city's expanded heavy industry. United Gas Corporation, which carries the gas to most of the distributing utilities throughout what it calls "The Gulf South," spent \$23,000,000 for

new construction and for expansion in 1948 alone.

THE case of New Orleans Public Service is typical. This utility furnishes electricity, gas, and transportation to the South's largest city. Its officials point out what has happened since 1941 happened to the town that once depended upon tourist trade for its main source of income—

1. SEVERAL very large war plants were located in the Crescent City during the war. Ships, airplanes, and even a few parts for the atomic bomb were made there. One plant, at Michoud, was the second largest built by Uncle Sam, after Willow Run.

Most of these plants are still in operation. The big Consolidated-Vultee aircraft facility on New Orleans' lake front is now owned by American Standard, which builds appliance parts. The Michoud plant, presently owned by the Board of Commissioners of the Port of New Orleans, is used by about twenty small operators for making everything from machine tools to wood panels. The shipyards, too, are busy, repairing vessels that serve the port of New Orleans.

2. THE population has jumped 20 per cent, and they are all richer than before, thanks to generally better business conditions, and to the pay-rolls of industry and port.

3. TEN THOUSAND new homes have been built since the end of hostilities. These augment other thousands of what local citizens call "chicken coop" houses hastily built to accommodate war workers, but still in use because of the continuing housing pinch.

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4. PORT trade has swollen the warehouses, docks, and transportation facilities of the city. New Orleans had been the nation's second port (after New York) back in the twenties. During the thirties, politics and high rates dragged the port volume down. Then, reform candidates were elected in 1940 to succeed the remnants of the machine left after the Louisiana scandals trials had been held. Reform Governor Sam Jones promptly put the port so permanently out of politics that an attempt by the present governor, Earl Long, to place administration of the New Orleans port back in the chief executive's hands was unsuccessful.

THE nonpolitical port commissioners have done an effective job of promoting the port back to prosperity and a second place slot after New York. They have been helped by such non-profit organizations as International House—and by the wartime traffic through the Army's Port of Embarkation.

Today, as principal port for the Mississippi valley, New Orleans needs more utility services than it did before the war, because shipping volume has zoomed.

The figures show the strain of all this increased demand upon the facilities—and the finances—of New Orleans Public Service, Inc. Residential

use of electricity in 1940 was 689 kilowatt hours per customer per year. Last year, the figures showed that the same average customer now uses 1,267 kilowatt hours of electricity annually.

"Increased use of appliances, and increased earnings that allow the customers to live better with electrical servants, are the reason for this vast individual jump," explained an official of the New Orleans utility company. "The employment figures from the state employment service show that there are few jobless here. That means there is money for electrical living."

During the year immediately preceding the war, New Orleans industries used 176,731,000 kilowatt hours of power. In 1949, this consumption jumped to 346,274,000 kilowatt hours.

In both industrial and residential demand, this represented a demand nearly double the prewar demand.

Industrial natural gas usage was 5,525,041,000 cubic feet in 1940—and 8,033,958,000 cubic feet in 1948. Residential gas users in New Orleans bought 3,435,019,000 cubic feet in 1940. But they bought 5,897,289,000 cubic feet in 1948.

TO meet this increased demand, New Orleans Public Service, Inc., spent \$43,433,276 between 1945, the first postwar year, and the end of 1949. This large sum was raised by selling



Q "It [Middle South] embraces the states of Louisiana, Mississippi, and Arkansas. When the war brought heavy industry in numbers to this section of the Southland for the first time, it brought a corresponding heavy demand for power, light, and gas. The industries stayed after the war ended. More industries of all kinds have moved down South (as New England towns can testify bitterly)."

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bonds, and by issuing increased shares of common stock. Ten million dollars in bonds have been sold, and \$5,000,000 worth of new common stock has been issued. The company plans to sell another \$9,000,000 in securities this year. Whether these securities will be stock shares or bonds is awaiting decision by the Securities and Exchange Commission at present.

In all matters of utility expenditures, especially for the increasing of facilities, the question of rates always comes up. How do the present rates paid by utilities in the middle southern states reflect an opportunity for adequate profits when compared to the large sums that the utility companies have spent for expanding their facilities to render service?

The case of New Orleans Public Service is again typical. This utility reports that its earnings are still adequate when compared to its investment—in other words, that the present scale of rates is entirely satisfactory. The New Orleans gas, electricity, and transportation utility voluntarily reduced rates about a year and a half ago.

The transit rate it charges is the same that held during depression days. A possible slight upward revision of this may be necessary in the future in order to render a profit with the new equipment and new transit facilities that have been put in since the war ended. If a rise in rates is needed in future, it will probably come in the form of zoned fares. New Orleans is presently one of the very few cities where the citizens can ride from one end to the other for 7 cents. (Sprawling New Orleans covers 360 square miles.)

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SOUTHERN BELL TELEPHONE & TELEGRAPH COMPANY is asking for its second large rate raise since the war ended. This, it is telling the various state public utility commissions, is necessary because of higher wage and material costs. No decision on the applications has been rendered in the three states.

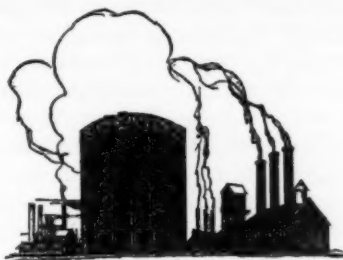
The four largest power and gas companies serving the three states are part of the system now known as Middle South Utilities, composed of remnants of the Electric Light & Power Corporation system that is in process of breaking up. A fifth member of the Electric Power & Light family went independent in June, 1948. This is the United Gas Corporation.

Electric Power & Light's 1948 annual report gives much of the general picture of the financial strain of utilities whose market has mushroomed overnight. Its president, Edgar H. Dixon, noted in the report for last year's operations that

"The demand for service continued to grow in the area served by the subsidiary companies, and expenditures of \$70,000,000 were made in 1948 for new property and renewal and replacement of existing property. Of this sum \$47,000,000 was expended by the Middle South System companies on expansion of their electric, gas, and transportation properties. United Gas Corporation and its subsidiaries expended \$23,000,000 for expansion of their natural gas distribution and transmission systems, gasoline extraction plants, and development of gas- and oil-producing properties.

"**I**N order to provide a part of the capital needed for the heavy con-

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Gas and Electricity Consumption in New Orleans

“DURING the year immediately preceding the war, New Orleans industries used 176,731,000 kilowatt hours of power. In 1949, this consumption jumped to 346,274,000 kilowatt hours. . . . Industrial natural gas usage was 5,525,041,000 cubic feet in 1940—and 8,033,958,000 cubic feet in 1948. Residential gas users in New Orleans bought 3,435,019,000 cubic feet in 1940. But they bought 5,897,289,000 cubic feet in 1948.”

struction program of the Middle South System subsidiary companies it was necessary for them to sell mortgage bonds and common stock during the year. In March, Louisiana Power & Light Company sold \$10,000,000 of first mortgage bonds, $\frac{1}{8}$ per cent series, due 1978. In September, Arkansas Power & Light Company sold \$7,500,000 of first mortgage bonds, $3\frac{1}{8}$ per cent series, due 1978. New Orleans Public Service, Inc., sold \$10,000,000 of first mortgage bonds, $3\frac{1}{4}$ per cent series, due 1978, in October. Your corporation supplied \$8,000,000 of the capital needed for construction purposes by investing in the common stocks of two of the Middle South System companies; in April, 320,000 shares of common stock of Arkansas Power & Light Company were purchased for \$4,000,000, and the balance of \$4,000,000 was invested in

400,000 shares of common stock of Mississippi Power & Light Company. The remainder of the cash required to finance the heavy construction program referred to above came from the earnings of subsidiaries not paid as dividends and other cash resources arising from their operations. United Gas Corporation and its subsidiaries provided the capital needed for construction from their own cash resources and sold no securities during the year.

“In 1948, expenditures by United Gas Corporation for distribution facilities alone totaled nearly \$14,000,000 for extensions to its 80,000 new customers and for strengthening its distribution system generally to serve heavier loads. Its subsidiary, United Gas Pipe Line Company, constructed \$28,000,000 of new property in these three years. For the most part, these expenditures were for additions

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to its gas transmission pipelines to strengthen its capacity to deliver gas to industrial plants, electric generating stations, gas distribution systems, and other customers using large volumes of gas. It has added, also, to its lines in gas fields which gather the gas from producing wells and to its plants for extracting natural gasoline where that fuel is present in the gas coming from the well. Union Producing Company, the other major subsidiary of United Gas Corporation, has spent over \$18,000,000 in these three years mainly in the development of its gas and oil reserves, as the market for these has expanded.

THE larger numbers of electric customers which the Middle South companies are now serving have made necessary a substantial extension of the electric distribution facilities which serve the customer. These extensions, and increases in the capacity of those facilities so that they may carry the heavier loads anticipated for them, required expenditures totaling \$48,000,000 in the three years 1946-1948. Electric transmission lines to carry power from generating stations, and substations which increase the voltage of the energy to send it over transmission lines and decrease voltage at points of use, were expanded in these three years at a cost of \$14,000,000.

"Facilities for producing electric energy called for expenditures totaling \$23,000,000 in the 1946-1948 period. These expenditures added approximately 152,000 kilowatts net to the power capacity of the system and included money spent on other units to be completed in the future. The largest amounts to be spent by the Middle

South group of companies in the next three years will be for this kind of property."

Present plans call for the addition of two units to Mississippi Power & Light Company's Rex Brown station near Jackson, Mississippi. The first unit—35,000 kilowatts—at this station was completed in the summer of 1948. Construction is going on now on a 44,000-kilowatt unit which is to be running at this station by the end of 1949, and a 66,000-kilowatt unit is to be added by 1951. Another 66,000 kilowatt station of this company is projected for the Natchez area to be operating by 1951.

THE Cecil Lynch station near Little Rock, Arkansas, which began operating in the spring of 1947 with a unit having an output capacity of about 34,000 kilowatts, is expected to have its second unit of 66,000 kilowatts capacity running by the summer of 1949.

Arkansas Power & Light Company has plans for a new station near Forrest City, Arkansas, which will add 132,000 kilowatts to the power capacity. It will be operating by 1951. Arkansas Power & Light Company also is carrying forward construction of a new station of 88,000 kilowatts capacity not far from Hot Springs. The output of this station, when it is completed late in 1949 or early in 1950, will be sold mainly to Reynolds Metals Company for the near-by aluminum plant.

The Industrial Canal station of New Orleans Public Service, Inc., with two units aggregating 83,000 kilowatts of capacity, is a new addition since 1945. A third unit of 44,000 kilowatts capac-

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ity is being constructed at this station to be operating early in 1950.

Louisiana Power & Light Company will begin construction soon on a new plant with an initial capacity of 66,000 kilowatts, on the Mississippi river above New Orleans. It will supplement the power supply in southern Louisiana. These projected additions to the electric generating capacity of the Middle South companies in the next three years total 572,000 kilowatts and will require expenditures now estimated to total \$65,000,000.

THE Middle South companies have also added to their gas distribution facilities, too, in this 3-year period. Expenditures were made to bring service to 47,000 new customers and to increase the capacity of existing distribution lines to provide for wider use. This has required more than \$10,000,000. Plans to modernize the transportation systems in the Middle South group of companies called for \$8,000,000 in the past three years—mainly for new electric and gasoline coaches and for construction of overhead feeder wires to operate electric coaches.

Expenditures for new property construction on the scale of those of the past three years have required substantial amounts of new capital. In the 1946-1948 period, the Middle South subsidiaries raised \$47,000,000 by the sale of mortgage bonds.

Earnings of these companies totaling \$10,000,000 over the amounts of dividends paid on their common stocks have been retained by the companies and used in their construction programs.

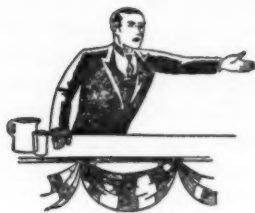
In addition, Electric Light & Power has purchased \$27,000,000 more of the common stocks of these subsidiaries. This latter sum has come mainly from the earnings above the amounts of dividends which paid during the three years on \$7 and \$6 preferred stocks.

Depreciation or retirement reserve funds amounting to \$24,000,000, set aside in this 3-year period by the Middle South companies, have also been available for building new or replacing old property.

In 1947, United Gas Corporation carried out its single financing operation of the 1946-1948 3-year period when it sold \$116,500,000 of its 2½ per cent first mortgage and collateral trust bonds, due in 1967. Of the total, United used \$94,200,000 to retire 3 per cent bonds outstanding; and \$22,300,000 represented additional capital for that corporation and its subsidiaries. In the same 3-year period, United and its subsidiaries added, for construction and development, \$17,100,000 in earnings above dividend payments. Retirement and depletion reserve funds available for these purposes in this period totaled \$35,900,000.

"TODAY there is greater realization that survival lies in the development of a coöperative society where the security of capital rests on the broad base of the prosperity of the multitude. Today the accepted view is that property need not be made tyrant in order to give men freedom and incentive to acquire it, own it, and manage it, and to unleash the great productive power of free enterprise."

—WILLIAM O. DOUGLAS,
United States Supreme Court Justice.



Who Wants Socialization of the American Power Industry?

PART II

Conclusion of the objective review by an experienced reporter of actual interesting and revealing statements made by prominent and responsible officials and public figures bearing on the charge that proponents of public power are bent on socializing the entire electric industry in the United States.

BY HERBERT BRATTER*

IN March, Federal Power Commissioner Leland Olds delivered a long address formally entitled, "Comprehensive Development of the Connecticut River," but which, to judge by the text, he might have been tempted to call "Myopia on the Connecticut." Mr. Olds made a hard-hitting case for multipurpose development of the New England river, claiming that the development proposals have been seriously misrepresented by private power interests. A frank advocate of government-in-the-power-business, he said:

"The comprehensive multiple-purpose approach to river basin improvement, which I am suggesting, has been seriously misrepresented, chiefly by those who rally to the defense of pri-

vate power enterprises. They picture such a program as designed to sacrifice other values such as flood-control benefits, good agricultural land, and community tax revenue to the major objective of socializing power. This is not so. But the fact is that such a program offers greater benefits, without taking power into consideration, than a single purpose program. And the mere fact that it also offers an abundance of economical power for regional use, and to assist in justifying the projects economically, should not be held against it . . .

"**T**HE fact that no projects that include the development of hydroelectric power have yet been authorized by Congress for this region, in marked contrast with other sections of

*Economist and author of articles on international finance, Washington, D. C.

WHO WANTS SOCIALIZATION OF AMERICAN POWER INDUSTRY?

the United States having water-power potentialities, is due, certainly so far as the Connecticut river basin is concerned, to opposition by various interests in New England in the case of projects at which power potentialities were found to exist . . .

"Federal agencies approach the problem of river basin development in terms of the full use of water resources through an economically sound, comprehensive, and integrated program covering an entire basin. The achievement of this objective involves more than merely a better use of the individual resources of a particular site. It involves the balanced use of all the water resources of the basin in a plan of development which will result in maximum power availability, flood control, navigation, pollution abatement, recreation, improved industrial and domestic water supply and land preservation. The provision of upstream and tributary water storage, correlated with main stream improvements, permits, in effect, repeated use of water resources.

"The multiple-purpose project is basic to the best use of the water resources of a region. New England has suffered loss of beneficial river basin development because certain interests have been strong enough to cause the region to insist on single-purpose development; that is, separating power development from flood control and so losing the full possibilities of conservation storage with its concomitant values in terms of pollution abatement and greater power potentialities."

Coöperative Viewpoint

FOR a representative coöperative viewpoint we have the report sub-

mitted to the National Rural Electric Coöperative Association in January by its executive manager, Clyde T. Ellis. The members he was addressing, said Mr. Ellis, are "probably the biggest grass-roots champions of free enterprise in America" and he rallied them to resist the "private power lobbyists" who last year "literally overran Washington, screaming 'socialization.'" The report spelled out in some detail Mr. Ellis' views on government power and transmission lines. From it we quote at some length:

"We must mobilize our forces to bring about the development of all our hydro power in America now, both for what it means to our people directly, and to the over-all economy. Hydro power is cheaper and it is always developed in projects that control floods, aid navigation, create recreation areas, and often provide irrigation. We are daily burning our ever-diminishing supplies of precious oil and gas, at a terrific rate, to produce far less electricity than is forever wasting itself down our rivers. We are doing this even in the potentially rich hydroelectric areas. History will not deal kindly with us on this score, for we are uselessly burning up the precious necessities, not alone of unborn generations, but also of our own living children.

"We must drive hard for all transmission facilities necessary to deliver that public power wholesale to the municipally owned systems, power districts, and electric coöperatives.

"**W**E must drive as a unit, because one of the weaknesses of the public power development is that it is so sectionalized that people in a particular area involved are not inclined

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to become much concerned about the others. Our National Association provides a vehicle through which our people may assist each other in driving as a group for all these programs. We are the only national organization of any kind actively fighting for the government's power programs, as well as rural electrification. The task before us on this score alone is colossal—a responsibility never to be taken lightly.

"It is our duty to let the country know and let the Congress know that we, the 10,000,000 farm people comprising our great billion-dollar enterprise, have no intention of seeing the nation's power program further wrecked or further retarded.

"And let the economic royalists be forewarned not to go too far in preaching their 'divine right of kings' philosophy to us Americans. In the two states where the people have had an opportunity to vote on what is American and what is not, in the power business, there are no power charlatans left to pounce upon us in the night.

"In this electric age the power business is the people's business."

Planning on the National Scale

REGIONAL planning of the use of resources is good, as far as it goes; but it is not enough. Planning must be on a national scale and also on local levels, according to Professor Myres S. McDougal of Yale University. The

professor expounded his views in Washington last May, before the National Emergency Conference on Resources. Instead of uncoordinated regional planning, there should be a national development plan in place of "our present chaotic administration and losses."

Some of Professor McDougal's observations follow:

"Though we have in the TVA a superb model for action at the regional level, we have had too little planning at national and local levels to project from such experience. It is obvious that some functions require performance at the national level, that uncoordinated regional planning alone will not suffice. The national interest requires a national perspective and wise decision on such questions as priorities in the allocation of resources and man power to regional development, the relation of national investment to changes in the business cycle, the dispersal of industry and population for protection from atomic attack, balanced development for maintenance of military security and peacetime efficiency, the need of special stimuli for underdeveloped regions, and so on. Some agency competent to create a national development plan, integrating the work of the various levels of government, is badly needed and should not be beyond the skill of our experts on public administration."



Q "ADVOCATES of valley development at present have all they can do to get the multipurpose programs adopted one at a time. But once the major river valleys are harnessed, the goal will be their integration into a nation-wide public power grid; in the words of the Mississippi Valley Committee: 'coördination as part of a unified national system.'"

WHO WANTS SOCIALIZATION OF AMERICAN POWER INDUSTRY?

Vista from the Valley

ADVOCATES of valley development at present have all they can do to get the multipurpose programs adopted one at a time. But once the major river valleys are harnessed, the goal will be their integration into a nation-wide public power grid; in the words of the Mississippi Valley Committee: "coördination as part of a unified national system." This and similar views of others were recently cited approvingly by Leland Olds, now a member—and twice chairman—of the body which regulates the private power industry, the Federal Power Commission.

Mr. Olds strongly believes that by 1960 the country's needs for electric-generating capacity will be triple that of 1940 and double that of 1948—implying an increase of 76,000,000 kilowatts in the next twelve years. Of this, he states, 20,000,000 should be installed in new hydroelectric power stations, the providing of which "will be principally the responsibility of the Federal multipurpose river basin programs." And the harnessing of these inexhaustible energy resources will help conserve the exhaustible oil and gas reserves. At this point we let Mr. Olds speak for himself, as he did before the National Emergency Conference on Resources in May:

"IN order to assure the best use of these water-power resources in meeting the country's future power needs we must envisage not only great multipurpose river basin programs but also the most complete integration of power supply. For this integration must be electric as well as hydraulic.

"The power potentialities of entire river basins must be developed under

unified plans which take advantage of the coördinated use of the available water under complete control through systems of conservation storage reservoirs. Where diversity of flow between neighboring river basins offers advantages, coördination may be extended to include more than one river in the general regional plan.

"Furthermore, there must be a planned coördination of power supply such that each increment of generating capacity, whether hydroelectric, fuel electric, or wind power, may be designed to carry that portion of the load which will assure the greatest possible economy coupled with the best utilization of the resources involved. To accomplish this there *must be high-voltage electrical interconnection of all power plants and markets OVER WIDE AREAS* so that hydro, fuel, and eventually wind-power plants, may be operated as a great power team, to assure the people of each of the country's regions an abundance of widely distributed low-cost power for all their needs. This will require a long-range power plan, based on a series of properly set up multipurpose river basin programs.

"*Investment of capital in these river basin programs is just as essential to the people's future as the private investment which is today depended upon for expansion of the country's great basic industries. For this reason, such programs must go forward in good times and in bad, with the hope that their very continuity will provide one of the forces tending to stabilize economic activity at good time levels.*

"In this connection, I would leave with you one final thought. With the cost of hydroelectric power



Future Needs for Electricity

"... by 1960 the country's needs for electric-generating capacity will be triple that of 1940 and double that of 1948—implying an increase of 76,000,000 kilowatts in the next twelve years. Of this . . . 20,000,000 should be installed in new hydroelectric power stations, the providing of which 'will be principally the responsibility of the Federal multipurpose river basin programs.'"

predominantly represented by fixed charges on investment, the possible limits of conservation of the country's water-power resources are steadily expanded as the annual rate of such charges is reduced. In other words, with private fixed charges at 8½ per cent, including 5½ per cent return, 2 per cent depreciation, and 1 per cent taxes, the future development of water-power resources will fall far short of what will be economically feasible, with government-fixed charges at say 5½ per cent, including interest at 2½ per cent, depreciation and amortization of investment at 2 per cent, and possibly 1 per cent payments in lieu of taxes.

"For example, the 1948 report of the Power Survey Committee of the New England Council, approaching the Connecticut river basin in terms of single purpose projects financed on the basis of private fixed charges, found economic justification for future development of only 111,000 kilowatts of

the undeveloped water power of the basin. In contrast, the Federal Power Commission staff, approaching the same basin in terms of a comprehensive multipurpose program financed by Federal funds, found economically feasible the development of undeveloped hydroelectric power, including development of new sites and redevelopment of old sites, totaling 749,000 kilowatts, or nearly seven times the New England Council total.

"So my final word is that, if the country wants to conserve and utilize its 77,000,000 kilowatts of undeveloped water power, it must turn wholeheartedly to Federal river basin programs of which long-range power planning will be an essential part.

"Such power planning must be on a nation-wide basis built up through integration of regional plans, for it must recognize the relationship between power supply and improvement in regional economies.

WHO WANTS SOCIALIZATION OF AMERICAN POWER INDUSTRY?

"It must be based on full use of inexhaustible water-power resources, although for the country as a whole fuel-generated power will always predominate.

"It must, therefore, assume general acceptance of multipurpose river basin projects.

"It must envisage ultimate unity of power supply in regional wholesale power systems which will in turn be interconnected with each other. In other words, it must complete the transition from the financial integration of scattered units in the holding company era to an operating integration consistent with the technological progress of the power age.

"Only through such power planning can electric power make its best contribution to conservation of the nation's resources."

Taps

PUBLIC power advocates seem to dislike to hear their programs likened to Socialism. Yet by regulation and competition from the Federal government the public utility industry has already gone a long way toward socialization in this country. When we envisage the full development of the

many river valleys on Mr. Olds' roster—from the Niagara and St. Lawrence in the East to the Kings, Kern, Feather, and Sacramento in the West—all linked in a great national grid, the holder of utility securities may well ponder the words of Senator Estes Kefauver of Tennessee: "Because it must be applied elsewhere [than the TVA], the valley authority will sound the death knell to private privilege and to the vested interests in a scarce commodity."

Import of Atomic Age

JUST where the development of atomic energy in the industrial field will lead and how it will affect private and public power projects is a matter for considerable speculation. Some people are wondering whether we should go ahead with huge river basin developments, in view of the possibility that the Atomic Energy Commission's pilot plant at Brookhaven, Long Island, may show the way to production of power on a more economical basis. But others, pushing for fuller exploitation of the country's water power, say it is folly to lay aside hydroelectric plans while waiting for new technologies to bear fruit.

"THE unwarned truth is that the present administration is hitting an all-time high in peacetime spending, and the momentum is increasing. I have warned repeatedly that the trend is dangerous and unless it is reversed the American people can count on a tax increase this year.

"Total taxes—local, state, and Federal—amount to over 37 per cent of the total spendable income of the American people. The impending increase resulting from the administration's spending policy will hoist the tax take to over 40 per cent."

—JOHN TABER,

U. S. Representative from New York.



Washington and the Utilities

Progress on the Gas Bill

THE question now in the minds of the gas industry is whether the Senate will have time to consider passage of the Harris Hill (HR 1758) to exempt independent producers of natural gas from Federal Power Commission control. The recent action of the House in approving the bill by 183 to 131 was believed to indicate the probability of Senate passage — provided, however, the upper chamber can reach it for a vote before adjournment or recess.

As the bill passed the House it would remove from FPC's jurisdiction independent producers and gatherers of natural gas who sell to pipe-line companies on an "arm's-length" or competitive market basis. Chairman Harris (Democrat, Arkansas) of the Petroleum and Federal Power subcommittee of the House Interstate Commerce Committee and sponsor of the bill said it was designed only to clear up confusion as to the bounds of Federal-state jurisdiction.

An analysis of the record vote indicates that the bill was passed by a majority coalition of Republicans and southern and southwest Democrats. Opposing votes came mainly from northern and "big city" Democratic Representatives with large organized labor constituencies. A similar bill already is pending on the calendar of the Senate, where there is believed to be enough votes to assure passage. However, pressure for adjournment and the volume of unfinished business create doubt that the bill can get to a vote before the Senate quits.

THE FPC has never exercised its theoretical authority over independents, but certain officials of the FPC in
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dicated during hearings on this measure that such jurisdiction might be exercised by the commission in the future. The bill would leave the matter of control over independents to state regulatory bodies.

Interior Committee Chairman Crosser (Democrat, Ohio) opposed the bill, saying that it would "create a serious gap in state and Federal regulation of gas utility service, and would be a matter of grave consequence to the public." The oft-repeated claim (mainly attributed to FPC member-designate Olds) that enactment of the bill would serve to raise rates for natural gas was made during floor debate. But supporters of the measure were aided by Speaker Rayburn (Democrat, Texas). Chief argument of the proponents was that the bill simply clears up the confusion (regarding the area of natural gas control by FPC) which followed in the wake of a 1947 U. S. Supreme Court decision, known as the Interstate Natural Gas Company Case.

All amendments attempted in the House went down to defeat — both from the left and from the right. First, Representative Furcolo (Democrat, Massachusetts) tried to kill the bill by striking out the enactment clause defeated by a vote of nearly 2 to 1. Then, Representative Keogh (Democrat, New York) offered two amendments to broaden the coverage of the bill so as to exempt production and gathering of natural gas generally. Keogh's amendments were likewise rejected.

An amendment by Representative Crosser to narrow the exemption to annual producers of less than 2 billion cubic feet of natural gas was voted down 52 to 87. A motion by Representative Hesel-

WASHINGTON AND THE UTILITIES

ton (Republican, Massachusetts) to recommit the bill for further study was rejected. Hint of a presidential veto if the bill passes the Senate was seen in the introduction of a letter from the Bureau of the Budget advising that the President did not deem the legislation to be in accord with his program. It is privately reported, however, that Senator Kerr (Democrat, Oklahoma) recently visited the White House to urge support of the bill and came away satisfied that the President has "seen the light."

Natural Gas Expansion

MEANWHILE the natural gas industry, according to advices from the FPC, continues its rapid rate of expansion. The new natural gas transmission line company seeking to construct a 1,018-mile pipeline from the Gulf coast to Joliet, Illinois, the Texas Illinois Natural Gas Pipeline Company, a newly formed Chicago corporation, has sought Federal Power Commission approval for construction and operation of the line at an estimated cost of \$98,966,700. The proposed line would be 30-inch diameter pipe. It would start from the Houston, Texas, area. Near Joliet, Illinois, it would meet the eastern terminal of the Natural Gas Pipeline Company of America. This company is now asking FPC permission to "freeze" the amounts of gas delivered to present users. Initial capacity of the new line would be 300,000,000 cubic feet per day.

Additional natural gas facilities for the Midwest and Detroit area have been approved by the FPC. Michigan-Wisconsin Pipe Line Company and Michigan Consolidated Gas Company have been authorized to construct additional facilities which will increase the capacity of Michigan-Wisconsin's Texas-to-Michigan pipe-line project to 155,000,000 cubic feet per day. The new facilities will carry gas to communities in Missouri, Iowa, Wisconsin, and Michigan, including the Detroit area. FPC directed Michigan-Wisconsin to supply natural gas to the National Utilities Company of

Michigan, Michigan Gas & Electric Company, and Iowa Electric Company, all interveners in the proceeding, for resale in Iowa and Michigan communities now served with manufactured or mixed gas.

COMMISSIONER Draper said he "reluctantly concurred" in the decision. He pointed out that the original proposal of the applicants to enter Panhandle Eastern Pipe Line Company's market area was based upon the contention that the new line would deliver gas at rates lower than Panhandle's. Draper said "it is now clear that the rates necessary to make the line feasible must be at least 50 per cent higher than those of Panhandle Eastern." He based his concurrence on the hope that if sufficient supplies of gas are available this might moderate the increases in cost which would otherwise be required. Five companies are racing to bring natural gas to New England, since FPC approval of a pipeline from Texas to Buffalo, New York. Three already have filed applications with the FPC.

No Authority Bills in the 81st Congress

THIS seems to be admitted now even by such top level administration authorities as C. Girard Davidson, Assistant Secretary of the Interior, who has been ostensibly leading the fight to get congressional consideration for the Columbia Valley Administration.

The CVA as well as the Missouri Valley Authority people are beginning to suspect and denounce the old-line departments for less than frank advocacy for authority bills earlier in the year. This followed receipt by President Truman of the Interior-Army Engineers "comprehensive plan" for development of the Columbia basin, otherwise called the Weaver-Newell plan.

The Reclamation Bureau, especially Reclamation Commissioner Straus, has been accused of sabotaging the administration's CVA plans. This charge was

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made recently by B. J. Stong, aide of Senator Murray (Democrat, Montana), in the writing of his MVA Bill (S 1160), and spokesman for an active pro-authority group with headquarters near the Capitol building. Stong complains that just before the President made his CVA appeal to Congress, the Reclamation Bureau and Army Engineers agreed to this new "comprehensive plan" for Columbia river development. Army Engineers and Reclamation Bureau have been traditionally opposed to independent regional valley authorities. The Reclamation Bureau tried to "go along" with the administration's desires for a CVA, but (higher-up) Interior Department officials have had to do most of the talking about compliance with administration policy along this line.

THE CVA proponents are now aware that the "comprehensive plan" is a more favored alternative than the CVA. They have been increasing their criticism of the Pick-Sloan plan (joint Army-Reclamation plan for the Missouri basin) and are trying to undermine the Weaver-Newell "comprehensive plan" on the same grounds. CVA supporters have dubbed the new program the "Pick-Straus plan," so as to bring it nominally, at least, under their general criticism of the Pick-Sloan program. Stong's attack on an Interior bureau is interpreted as realization that Interior's support for any "authority" will be conditioned upon Interior Department control.

Interior is said to be preparing for congressional rejection of the valley authority proposals in their present form, and doesn't want to be caught off guard when important shifts are being made. Younger men in the department and bureau are looking toward eventual adoption of the Hoover Commission proposal for a "Department of Conservation."

New Bill to Remove Excise Taxes

GOING a step beyond pending Senate proposals to cut back the bulk of
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wartime excise tax rates, Senator Gurney (Republican, South Dakota) has introduced an amendment to repeal all of them and reintroduce the 1942 levels. This proposal came as Democratic leaders, after a visit to President Truman, said that a general revision of wartime excises at this time is "impossible."

Representative McCormack (Democrat, Massachusetts), spokesman for the group, said after leaving the White House that it would be impossible to repeal any substantial amount of excises without imposing additional taxes.

"Everybody's for repeal," he said, "but I don't think it will be done."

"You can't repeal taxes involving over a billion dollars and further unbalance the budget by that amount, without further taxes being imposed," he asserted.

The Gurney amendment is intended to be offered to a bill already on the Senate calendar and carrying an amendment sponsored by Senator Johnson (Democrat, Colorado) to repeal about \$550,000,000 of excises. Utility industries are affected by the high taxes now prevailing on all forms of passenger fares (15 per cent), monthly telephone bills (15 per cent), and telegrams and toll calls (25 per cent).

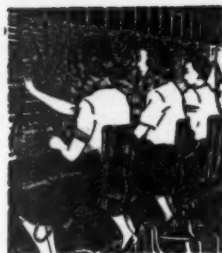
The chief difference of the Gurney proposal from the Johnson plan is that the South Dakotan would cut back both the cabaret tax and the liquor taxes to their prewar levels. Both of these were omitted from the amendment approved by the Senate Finance Committee.

GURNEY, in offering his amendment, told the Senate he considers reduction of excises as "vital to the economic health of our country."

He also pointed out that at the time the revenue bill of 1943 was enacted into law "the American people were told that these excise taxes were a temporary expedient made necessary by the demands of an all-out, 2-front war."

"I think it is high time," Gurney said, "that Congress redeems the pledge it made to the American people in respect to the temporary nature of these taxes."

Exchange Calls And Gossip



Join Plan to Aid Small Phone Companies

THE New York Public Service Commission has developed a plan which it hopes will save smaller telephone companies from threatened extinction, Spencer B. Eddy, deputy chairman, said recently. He told the convention of the National Association of Railroad and Utilities Commissioners meeting in Cleveland that the New York commission has enlisted the aid of a group of local banks to advance funds for needed construction in cases approved by the commission.

In a prepared speech, Eddy declared that New York state has about ninety telephone companies with small revenues, plants badly worn out and needing immediate rehabilitation. In addition, he said, these small companies with annual revenues less than \$15,000 have virtually no credit resources, or, in cases where they could obtain loans, the cost of financing makes them prohibitive.

"We have then," said Mr. Eddy, "the situation where the small company is faced with demands of increased service and for service to additional customers. This demand comes at a time when it was already compelled to meet the problem of deferred maintenance."

It also has the problem of financing the needed improvements in the face of costs "double the prewar price," he said. The larger independent has had no more difficulty obtaining outside financing than any other utility of the same size, Mr. Eddy declared. Two choices exist, he said: obtaining of credit from some private source where such credit was justified, or Federal legislation which would permit the Federal government to do the

same thing in the telephone industry it has done under the rural electrification plan.

FEDERAL aid, he said, would mean "further encroachment of Federal authority in the field of purely local regulation."

"We determined to see to it," Eddy said, "that the money necessary to provide adequate service was obtained from private sources. The result is that a commitment has been made by a group of upstate banks to loan for construction purposes to any telephone company in the state, unable to obtain funds from other sources, sufficient moneys for their need, provided the loan is approved by the public service commission."

The commission insists that the money be required; that there be a property value to support the loan; and that the company's business be such that there is a reasonable expectation that the loan can be repaid.

The REA Farm Phone Bill

V. E. COOLEY, president of the Southwestern Bell Telephone Company, with headquarters in St. Louis, appeared before the Senate Agriculture Committee in opposition to the Hill Bill, which would set up a loan program to aid expansion of rural phone service. He said his company, which operates in Missouri, Arkansas, Kansas, Oklahoma, Texas, and a small area in Illinois, recognizes that farm families need good telephone service. In the five states in which the company operates, there are over 1,100,000 farms, or almost one-fifth of the total farms in the United States.

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From January 1, 1946, when the company's postwar rural program really got under way, to July 1, 1949, telephones in rural areas served by the Southwestern Bell Telephone Company increased from 135,000 to 273,000, Mr. Cooley said.

Regarding the current high level of demand for telephone service, he referred to the almost revolutionary change in farming and in the farmer's economic position which has taken place since the 1930's. As to the market for rural telephone service, Mr. Cooley said results show wide regional variations in the potential demand for rural telephone service. He stated:

There is, I believe, a general acceptance in this country of the principle that Federal interference or subsidies should be avoided unless necessary in the public interest. Now the telephone industry, as clearly indicated by the facts which I have presented, has made tremendous progress in meeting the heavy postwar demands for rural telephone service and it can and will finish the job.

ALSO appearing before the committee was Russell J. Hopley, president of the Northwestern Bell Telephone Company, with operating headquarters at Omaha, Nebraska. The company serves the states of Iowa, Minnesota, Nebraska, North Dakota, and South Dakota. He said telephone service for farmers and ranchers has been a major concern of the company since the very beginning of the business. The company's long-range program of continually expanding and improving rural service, he said, "finds us today with telephone service furnished to 78 per cent of all rural establishments in our territory."

For the most part, Mr. Hopley said, the problem of providing rural telephone service in the company's territory is not one of moving into large undeveloped areas, "but rather that of expanding the existing network of rural plant to provide service to all who want it. Our existing rural telephone network already is within reach of nearly 90 per cent of the

rural farmers and ranchers in our territory. Certainly there is no emergency in this situation calling for general governmental assistance."

H. S. Dumas, president of Southern Bell Telephone & Telegraph Company, operating in the states of North Carolina, South Carolina, Florida, Georgia, Alabama, Mississippi, Louisiana, Tennessee, and Kentucky, also appeared in opposition to the bill. During the depression of the early thirties, which almost destroyed the agricultural economy of that section of the country, the company lost nearly a third of all telephones in all areas, both urban and rural, he said.

Southern Bell, Mr. Dumas said, is particularly anxious to continue with its program of rural expansion. "The one great obstacle that confronts us is the fear that our investment may be rendered valueless through duplication."

He recommended that existing telephone companies should be given a definite first preference in the granting of loans; that duplication be prohibited; that the acquisition of exchange properties already established in urban areas be prohibited. Such acquisition, he stated, "which is left to the judgment of the administrator, may well make this a municipal ownership telephone bill instead of a rural telephone bill."

Mr. Dumas said the industry was confident that it could show the committee the very real dangers of the legislation as it is now drawn, "our industry will be relieved of a serious threat to its solvency, its ability to offer steady employment at good wages, and its ability to continue to render the American public the best telephone service that men anywhere know anything about."

HAROLD V. BOZELL, president of General Telephone Corporation, which controls the nation's largest independent telephone company system, urged the committee to avoid the dangers of Socialism, unfair taxation, and other possible injury to the nation's telephone industry, by deferring immediate action on a House-approved bill to authorize REA loans for farm telephones.

EXCHANGE CALLS AND GOSSIP

Bozell, who also appeared as vice president of the United States Independent Telephone Association, suggested the creation of "some temporary examining committee consisting of representatives from your committee, from the REA, from the Bell system, and from the independent segment of the telephone industry to report back to you as soon as the 1950 census is taken, with a recommendation based upon what that census may show and based on what sitting around the table might develop."

The witness, in addition to requesting that REA loans to government borrowers be prohibited, also asked the Senate group to consider the elimination from the bill of a provision which would permit the granting of Federal loans to duplicate service in the same area unless the existing company is unwilling or unable to extend it. He stressed the importance of private company experience in dealing with the farm telephone problem.

SENATOR Stennis (Democrat, Mississippi) urged the Senate Agriculture Committee to approve the legislation already passed by the House. Rural service never will be available to all farmers without some Federal loan program, he said.

Stennis said the program outlined in this bill will fill the same gap which the Rural Electrification Administration filled for the farmer in connection with rural electricity. The telephone, like electricity, he said, is not only a convenience in the full development of rural living, but has become vitally necessary for a farmer in the conduct of his daily business.

Clyde T. Ellis, executive manager of the National Rural Electric Cooperative Association, told the committee the bill is opposed by the Bell telephone system and big independent companies because they seek an "absolute monopoly" over the nation's telephone industry.

Representatives of independent telephone companies of Indiana, Iowa, Minnesota, and Texas last month appeared before the committee to protest passage

of the bill. All of the executives asked Congress to protect existing telephone companies from unfair competition by barring REA loans for the duplication of service in the same area.

Senate Passes FCC Reform Measure

THE Senate on August 9th passed a bill to reform administrative procedures of the Federal Communications Commission and raise the salaries of its members from \$10,000 to \$15,000 a year. The legislation, which was sent to the House, also would forbid FCC members from resigning before their term of office expires to take high-paying jobs in the industries which they regulate.

The Senate Commerce Committee, which drafted the bill after nearly ten years of intermittent hearings, dropped at the last minute a section which would have forbidden the FCC to discriminate against newspapers in awarding licenses for radio station ownership. The committee explained that the commission has voluntarily abandoned any such ideas, and now treats newspapers in the same manner as other applicants.

The committee said the employment ban was designed to restrict the practice of using appointments to high government posts as "stepping stones to important positions in private business."

It added that the rule also should halt the practice of companies, which are under the commission's jurisdiction, seeking to hire persons who might have "influence."

C&P Renews Recognition

RECOGNITION of the Virginia division of the Communications Workers of America as bargaining agent for approximately 4,500 Chesapeake & Potomac Telephone Company employees has been restored by the telephone company.

Company officials said a letter had been mailed to the union, recently affiliated with the CIO, announcing company ac-

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ceptance of a decision by the National Labor Relations Board dismissing its petition for an election on its properties to determine union representatives.

The company previously had protested, in its petition to the NLRB, the manner in which the CWA affiliated with the CIO. The company was only one of many Bell system phone organizations throughout the nation who thought elections should have been held, on company property, to determine whether CIO was wanted as bargaining agent.

A. V. Atkinson, president of the Virginia division of the CWA, said the restoration of recognition substantiated "the union's position" and the company's withdrawal of recognition, and subsequent impounding of union dues from employees' salaries had "no basis of legality."

The NLRB early last month dismissed a petition of the Pacific Telephone & Telegraph Company for an election to determine whether the CIO Communications Workers of America represents a majority of the workers in one of the company's operating units. The NLRB held that the contract between the union and the company remained in effect despite the new affiliation with CIO.

"Phonevision" Setup Planned

THE Zenith Radio Corporation has asked the Federal Communications Commission for authority to make experimental phonevision broadcasts in the Chicago metropolitan area. It would offer phonevision as a television-subscriber service to include first-run motion pictures, current stage productions, and special events. Zenith said its experimental television station at Chicago would be used to test the plan.

The radio company proposed to distribute special receiving sets to 300 persons, most in the area of the Lakeview exchange of the Illinois Bell Telephone Company.

The phonevision broadcasts involve a dual operation; that is, tuning in on a television set, plus a telephone wire con-

nection. Any set could pick up the phonevision broadcast in scrambled form. The telephone connection provides the key for unscrambling the picture on the screen.

The subscriber to the service would notify the telephone company when he wants to receive a phonevision program and the operator would throw a key. The service would be charged on regular monthly telephone bills. The telephone could still be used for regular conversation while such connections were on.

The Illinois Bell Telephone Company is cooperating with the Zenith Corporation on the project.

Rate News

THE California Public Utilities Commission recently granted the Pacific Telephone & Telegraph Company a \$13,400,000 gross annual increase in its revenues. The boost will come from higher rates to basic business and residential telephone users in the state. The higher rates were scheduled to go into effect on September 1st.

In Los Angeles, the order will result in no increase in the basic rate in the Los Angeles exchange except for semipublic services. Increases are allowed in both business and residence rates in the 21 suburban exchanges in the Los Angeles extended area.

San Diego will get an increase in business rates but the residential rates will remain unchanged.

The state public service commission early last month denied a petition of the Indiana Bell Telephone Company for an emergency temporary rate increase of \$3,800,000 which would have affected Indianapolis and other Indiana cities. The commission held that the company had failed to show that an emergency exists. It ordered hearings resumed on the original petition for a permanent rate increase September 12th.

A spokesman for Southern Bell Telephone & Telegraph Company said recently the company was disappointed over the 6 per cent rate increase granted in August.

Financial News and Comment

By OWEN ELY



Inflation Again?

FOR the first time in four or five years the Federal Treasury has started issuing "new money" short-term paper instead of merely refunding debt previously outstanding. Immediately after the war the government had a huge backlog of cash—\$15-\$20 billion—by which it avoided deficit financing, and later the budget was miraculously balanced. But Washington is now returning to the idea that, with the present trend towards a welfare state, deficit financing is the lesser evil and that the government's duty is to sustain prices and business activity at a high level through Federal spending. Thus many millions are used to buy butter, eggs, and potatoes to take them off the market, even if the food spoils as a result.

Also, the government has again definitely embarked on a cheap money program and the Federal Reserve has taken several steps to reexpand bank credit. At the same time the automobile industry is at record activity, consumer instalment credit has reached new highs, the states are borrowing hundreds of millions for soldiers' bonuses, and the Federal government expects to hand about \$2 billion cash to veterans next year for insurance "adjustments." All this raises the question of whether the inflation wheels are turning again. Fourth-round wage increases, if granted to U. S. Steel and Ford employees, may tell the story. Labor, government, and the farmer are teamed together to keep the ball rolling.

Observers are puzzled as to when it will stop or where it will end.

THE accompanying chart shows public and private debts since 1916. In 1929 corporate and private debts reached new highs and a record depression was the result. Corporate debt reached a peak of \$89 billion in 1929; this debt was slowly whittled down, reaching \$73 billion in 1938, after which it started to increase slowly. Individual and noncorporate debt followed the same general trend, dropping from the high of \$73 billion in 1929 to \$52 billion in 1936, after which it increased slowly. Public debt increased only moderately as a result of World War I but, of course, went up on deficit financing in the 1930's and skyrocketed during World War II.

In 1929 our total net debt was 16 per cent government, 46 per cent corporate, and 38 per cent individual. In 1947 it was about 58 per cent government, 24 per cent corporate, and 18 per cent individual. Moreover a very substantial part of our government debt is short term or payable on demand, and there is also a sizable volume of short-term corporate and individual debt. This short-term debt structure is the weakest part of our national economy. For in bad times it may be hard to pay or refund these debts. Defaults, whether by home owners, farmers, corporations, or government bodies, mean a slow and painful process of readjusting the ownership of wealth—witness the 1930-1935 de-

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bacle, when many mortgages couldn't be renewed. Meanwhile, when it is hard to borrow new money, construction work of all kinds slows up and unemployment results.

It is possible to maintain a high-debt structure as long as national income is maintained at correspondingly high levels. From the accompanying chart it looks as though a normal ratio might be around 1.8 to 1 or 2 to 1. Unfortunately our figures on national debt are always a year or two behind so we don't know when the danger point is reached. In 1929 debts were about 2.2 times national income and a big proportion of the debt was in highly vulnerable stock market mortgage and farm paper. At present these particular types of debt seem unlikely to make trouble, and corporate short-term paper thus far remains pretty well protected. The big enigma is government credit. Can the government continue indefinitely to subsidize farm prices at a high level? Can it continue for years to juggle over \$40 billion short-term paper and some \$50 billion nonmarketable U. S. savings bonds? The Federal government has assumed broad powers over the commercial banking structure, but commercial banks hold only about 36 per cent of the government debt. The balance is distributed as follows: U. S. agencies 13 per cent, state and local governments 3 per cent, institutions 14 per cent, other corporations 8 per cent, and individuals 26 per cent.

SAVINGS bonds are largely held by individuals and since the bonds have no market the government is relieved of worry over price trends. Nevertheless a possible future decline in long-term treasuries, such as occurred in Liberty bonds in the 1920's, might arouse fears for the safety of savings bonds at some point in the future. Of course the present monetary setup is highly flexible and the Federal Reserve System is elastic enough, seemingly, to pull the government out of almost any financial difficulty. But in doing so, might it not have to inflate the currency?

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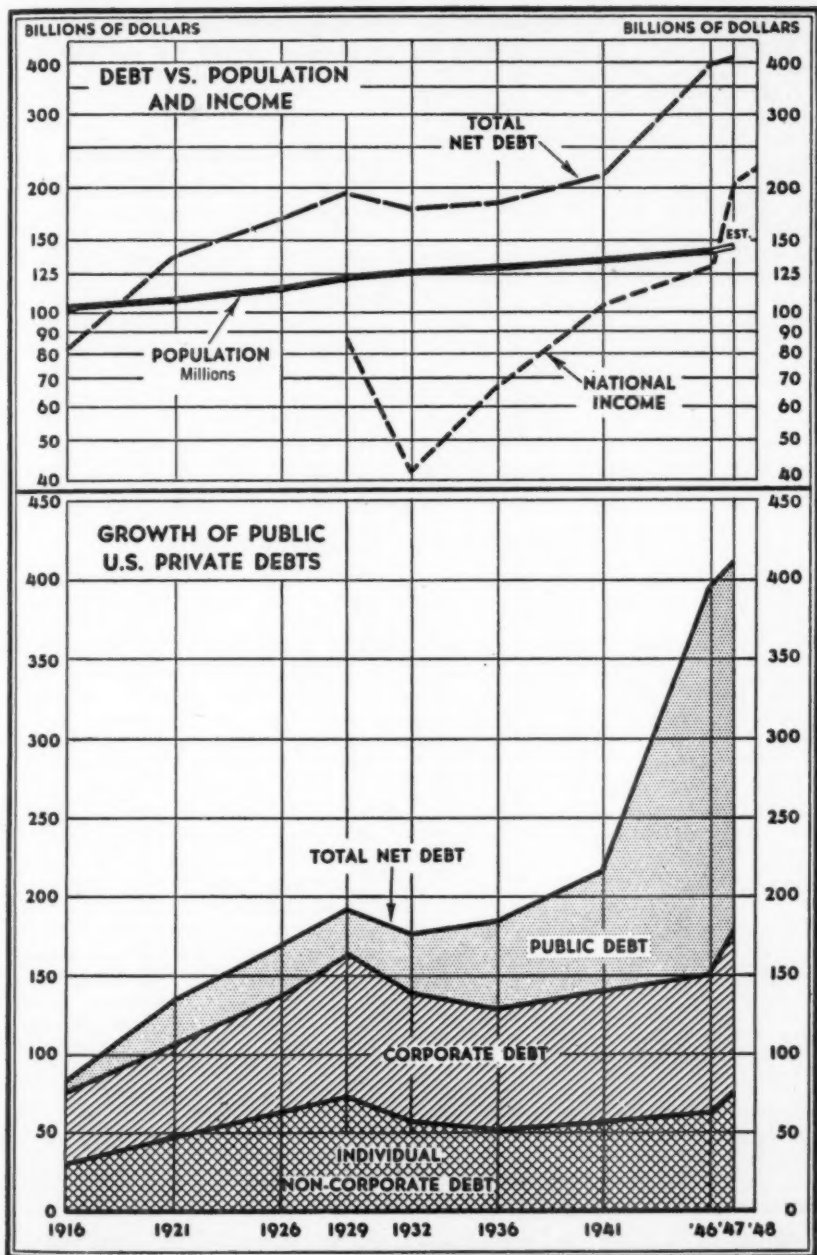
Perhaps these are unwarranted fears, but in any event business is required to be on continued guard against inflation, which does everybody harm in the long run. The purchasing power of our dollar has already declined sharply in the past two or three decades, and its gold content has been cut 43 per cent. Inflation is the traditional way by which weak governments try to offset their debt burden by raising the level of the national income. It robs the "white-collar" class of their savings and benefits only the speculator. It is bad for railroads and utilities, which find it much more difficult to gain compensating rate increases than do unregulated industries. While it may temporarily seem to benefit labor, in the end it may necessitate a broad readjustment of wealth and credit, with a resulting depression injuring everybody.

Annual Statistical Publications

Two annual statistical publications have reached the editor's desk—Turner's "Financial Statistics of Utilities for 1949" and Hartt's "Market Analysis of Common Stocks of Public Utility Companies."

Turner's book devotes two pages each to the principal electric and gas operating companies, which are conveniently arranged in alphabetical sequence. Some 424 companies are covered, including subsidiaries of holding companies; an improvement would be to list holding company subsidiaries by systems instead of indexing them with the operating companies. Five-year data are given for each company, including a summarized income account and balance sheet and a few statistical ratios. A small outline map of the sections served and some details about the area, the number of customers, etc., are added. Space given to an earnings and dividend chart for each company might better be devoted to additional statistics such as the average kilowatt-hour rate, residential kilowatt-hour sales per annum, per cent earned on estimated rate base, capital ratios, etc. These statistics are needed to appraise utility securities.

FINANCIAL NEWS AND COMMENT



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HARTT's large pamphlet, which appears to have the same setup as in several years past, contains a larger number of ratios and has some interesting data not readily available elsewhere, such as the amount of amortization of plant acquisition adjustments per share.

In this connection, Mr. Hartt's statistics include only the 127 electric companies whose stocks are in the hands of the public, and hence are less complete in this respect than Turner's. On the other hand Hartt includes 56 gas companies, 7 telephone, 7 water, 7 bus, and 7 street railway companies.

Both books show combined figures for large groups of companies which may be of occasional use for comparison with individual companies, or for other research purposes. They both appeared a

few weeks in advance of Moody's "Utility Manual," which also contains many ratios used by Wall Street.

Wall Street Brochures

THE accompanying table lists some of the memoranda and brochures issued by Wall Street houses on utility topics during the past quarter. The list is probably incomplete, since some studies are not publicized or distributed widely. We are particularly anxious to list the larger and more important studies, not only for current interest but for future reference. (We occasionally have inquiries for a list of all articles published on one company for several years past.) To insure listing, banking



UTILITY REVIEWS BY WALL STREET FIRMS*

<i>Company Analyses</i>	<i>Firm</i>	<i>No. Pages</i>	<i>Month</i>
American Light & Traction	Josephthal	1	June
Cities Service	Kerr & Co.	4	June
Columbia Gas System	Kerr & Co.	4	April
Commonwealth & Southern	David L. Babson (Boston)	2	June
Delaware Power & Light	Hentz & Co.	1	May
Electric Bond & Share	Carreau	2	May
General Public Utilities	Argus Research	6	May
International Hydro-Electric	Hentz & Co.	2	May
Interstate Power	Eastman, Dillon	8	June
Laclede Gas	Reynolds	—	July
Public Service of Indiana	Geyer & Co.	—	July
Republic Natural Gas	Kerr & Co.	4	March
San Diego Gas & Elec. Co.	Kerr & Co.	6	May
South Jersey Gas	Mercer Hicks	2	May
Southern Calif. Edison	Sutro & Co.	4	July
Southern Company	First Boston, Kidder, Pea-		
	body, Merrill Lynch	10	July
Southern Company	Josephthal	—	July
United Corp.	Hentz & Co.	2	July
United Gas Corp.	Josephthal	3	May
United Gas Corp.	Paine, Webber	3	June
United Gas Corp.	Reynolds	8	June
United Light & Railways	Josephthal	1	June
Western Natural Gas	Kerr & Co.	4	May
Wisconsin Power & Light	Loewi & Co.	—	May
Wisconsin Power & Light	Geyer & Co.	—	July
<i>General Reviews, Etc.</i>			
Monthly Comment	Reynolds	4	July**
Monthly Review	Eastman, Dillon	11	July**
Monthly Review	Josephthal	4	June**
Natural Gas for Atlantic Utilities	Kerr & Co.	6	May
Public Utilities Common Stocks	Stroud	4	April

*Similar lists appeared in the FORTNIGHTLY of May 26th and March 17th, and in 1948 in the December 16th, September 9th, June 3rd, and March 11th issues. **Latest issue.

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houses are requested to mail copies of studies direct to the financial editor—Owen Ely, 61 Broadway, New York 6, New York.

Interest Credits on Construction Funds

VICE President W. F. Stanley of Southwestern Public Service Company writes as follows:

I intended writing you sooner after reading your comments in the July 7th FORTNIGHTLY on the subject of "Construction Fund Interest Credits." I think you raise a most interesting point on a very important subject. I am not, of course, familiar with the methods used by the various other companies in the electric industry in the matter of computing interest during construction, but as to those companies subject to FPC accounting jurisdiction, it appears it will be necessary that they follow, at least generally, the standards set out in the Uniform System of Accounts. Under this system, the interest during construction must be accumulated and added to each item of property additions at the time of its completion.

Accordingly, it has been our policy to accumulate interest during construction only on types of property additions which involved a fairly substantial total expenditure on the one hand, and also which require a considerable time for completion. Any other treatment of the items in detail would lead to considerable additional accounting work. The effect of this policy is, as a practical matter, that interest during construction is not accrued with respect to ordinary connections of new customers, which, of course, constitute a substantial part of the total expenditures, nor on many other individual items.

I have just been looking back over our results for the twelve months ended May 31, 1949, and I find, as a result of this policy, the amount of interest during construction credited

during this twelve months' period appears to reflect a return of only about 3.50 per cent of the average amount of work in progress during this twelve months, arrived at by adding work in progress at the end of each month and dividing by 12. In other words this means that, under our system, interest was actually computed on less than 70 per cent of the work in progress during the last twelve months.

Assuming an obtainable and permissible return on the investment in the new facilities of 6.2 per cent after Federal taxes (an arbitrary assumption) we then come to the point you raise—will this return be fully obtainable, having in mind that some of the facilities may merely create reserve capacity and not immediately yield a return?

Obviously, only a portion of the work in progress could, under the very worst assumptions, be considered as creating reserves. For instance, all the new customer connections and other distribution extensions and additions are not in that category, as they would not be made unless the business would soon be available. The same, I think, is largely true of the transmission lines.

Accordingly, the principal categories to which the reserve factor would apply are power plant additions. As you are aware, generating equipment now represents roughly one-third of utility plant, and it is indicated that the additional facilities being constructed also will contain about that proportion of generating facilities. This being the case, it would seem that the "reserve factor" could apply only to the generating equipment and in part to the transmission lines.

I would think that under no circumstances should the proportion of new generating equipment (which might constitute reserve) exceed 50 per cent of the new installations, and that probably not over one-third of additional transmission lines would fall into this category, so that the maximum over-all portion of additions which might be used solely as reserve capacity would

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be something like 25 per cent of total construction expense.

If it were to be assumed that interest during construction for the industry as a whole would be approximately the same in relation to work in progress as in the case of Southwestern,

this would, as stated above, represent a return of about 3.50 per cent on total work in progress. If the assumed return of 6.2 per cent after Federal taxes on the additional investment were reduced by one-quarter to compensate for the maximum reserve factor, the



CURRENT UTILITY STATISTICS AND RATIOS

		Amount		Per Cent Increase	
	Unit Used	Latest Month	Latest 12 Mos.	Latest Month	Latest 12 Mos.
Operating Statistics (June)					
Output KWH—Total	Bill. KWH	23.6	288.9	4%	7%
Hydro Generated	"	7.2	—	4	—
Fuel Generated	"	16.4	—	4	—
Capacity	Mill. KW	58.7	—	9	—
Customers, no.	Mill.	41.8	—	6	—
Fuel Use: Coal	Mill. tons	6.6	—	D16	—
Gas	Mill. MCF	52.2	—	20	—
Oil	Mill. bbls.	5.0	—	62	—
Coal Stocks	Mill. tons	28.4	—	47	—
Sales, Revenues, and Rates (May)					
KWH Sales—Residential	Bill. KWH	3.4	42	11%	13%
Commercial	"	2.8	34	8	10
Industrial	"	8.4	108	D5	6
Total, incl. misc.	"	20.3	256	—	7
Revenues—Residential	Mill. \$	105	1,271	11	11
Commercial	"	80	981	8	11
Industrial	"	99	1,227	2	10
Total, incl. misc. sales	"	344	4,228	7	10
Revenues and Income (May)					
Elec. Rev., incl. misc. rev.	"	348	4,280	7%	10%
Misc. Income	"	9	121	13	4
Expenditures (May)					
Fuel	"	52	766	D8%	13%
Labor	"	71	833	9	10
Misc. Expenses	"	60	751	6	9
Depreciation	"	31	367	8	7
Taxes	"	64	738	13	11
Interest	"	20	225	16	15
Amortization, etc.	"	2	25	D29	D44
Earnings and Dividends (May)					
Net Income	"	56	696	12%	10%
Preferred Div. (est.)	"	8	98	4	2
Bal. for Common Stock (est.)	"	48	598	14	12
Common Dividends (est.)	"	36	393	2	4
Balance to Surplus (est.)	"	12	205	100	46
Utility Financing (July)*					
Bonds	"	98	—	D47%	—
Stocks	"	48	2,300	—	—
Total	"	146	—	D22	—
Life Insurance Investments (January 1st-August 8th)					
Utility Bonds	"	—	723	—	D2%
Utility Stocks	"	—	51	—	132
Total	"	—	774	—	1
% of All Investments	"	—	22%	—	3

D—Decrease. *Data for all utilities (electric, gas, telephone, etc.), including refunding issues.

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return on the over-all expenditure would become 4.65 per cent which, you will observe, would still considerably exceed the 3.50 per cent return from interest during construction.

This seems to me to indicate that even with a maximum reserve factor, the industry can expect to receive a greater amount of earnings after taxes on the additional equipment than the amounts credited to interest during construction, while the work was in progress.

Of course, this is predicated on the assumption that the effective interest during construction would not exceed 4.65 per cent when applied to all work in progress.

Of course, in the case of Southwestern I think the reserve factor would be unusually low, so that this differential between an assumed return of 6.2 per cent (less allowance for reserves) and the 3.5 per cent return as interest during construction could easily run from 2 per cent to 2.5 per cent on the investment after completion of the greater part of the construction program for the 1949, 1950, 1951, and 1952 fiscal year periods.

FRB Chairman Wants to Aid Equity Financing

FEDERAL RESERVE BOARD Chairman Thomas B. McCabe came out re-

cently with a strong statement about the necessity of raising more equity capital for American business, thus supporting the campaign waged by President Emil Schram of the New York Stock Exchange.

Recently, Congress has initiated another investigation of general business, with the idea of finding and forestalling the causes of major depressions. It is even said that, despite Representative Celler's highly vocal criticism of insurance company investments, Congress may favor granting insurance companies the power to invest in common stocks—though such power would have to be granted by the state legislatures under the present setup.

Chairman McCabe's statement to a congressional committee fitted into the picture of what economists and business leaders have been telling Congress for some time. Coming from such a source the advice will carry greater weight. Mr. McCabe advocated the following changes: (1) reducing income taxes to make cash available for investment. (Mr. Hoover's recent talk also stressed this factor.) (2) Eliminate double taxation of dividends. (3) Revise tax exemption on municipal bonds. (4) Liberalize "carry-back" tax provisions to cut business losses. (5) Permit heavier depreciation of new plant for tax purposes. (6) Liberalize capital gains and losses regulations. (7) Permit insurance companies to buy common stocks.

CURRENT COST OF FINANCING

Yields on Various Types of Utility Securities

	Recent	1949 Range		1948 Range	
		High	Low	High	Low
*Government Bonds—Tax Exempt	1.47% b	1.82%	1.47%	2.08%	1.68%
—Taxable	2.21 b	2.40	2.21	2.44	2.38
*Utility Bonds—Aaa	2.62 a	2.77	2.62	2.90	2.72
—Aa	2.70 a	2.84	2.70	3.01	2.82
—A	2.85 a	3.02	2.85	3.09	2.92
—Baa	3.25 a	3.45	3.24	3.49	3.26
Utility Pref. Stocks—High Grade	3.84 a	4.02	3.84	4.20	3.88
—Medium Grade	4.33 a	4.57	4.33	4.65	4.44
Utility Common Stocks	5.91 b	6.26	5.88	6.41	5.48

*Long term. a—Moody Index. b—Standard & Poor's Index.

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RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

	8/9/49 Price About	Indicated Dividend Rate	Approx. Yield	12 Mos. Ended	Share Cur. Period	Earnings Prev. Period	% In- crease	Price- Earnings Ratio
Telephone Companies								
<i>Bell System</i>								
S Amer. Tel. & Tel.	144	\$9.00	6.3%	May	\$8.89	\$9.23	D 4	16.2
O Cinn. & Sub. Bell Tel. ...	73	4.50	5.9	Dec.	3.76	3.85	D 5	19.4
C Mountain Sts. T. & T. ...	100	6.00	6.0	June	7.25	5.98	21	13.8
C New England Tel.	84	4.00	4.8	June	4.59	4.68	D 2	18.3
S Pacific Tel. & Tel.	98	6.00	6.1	May	6.21	3.70	68	15.8
O So. New Eng. Tel.	31	1.60	5.2	Dec.	2.22	.94	136	14.0
Averages			5.7%					16.3
<i>Independents</i>								
C Associated Tel. A	22	—	—	—	—	—	—	—
S General Telephone	27	\$2.00	7.4%	June	\$2.55	\$2.04	25	10.6
C Peninsular Tel.	45	2.50	5.6	Dec.	5.66	5.25	8	8.0
O Rochester Tel.	11	.20	1.8	Dec.	.80	.47	70	13.8
Transit Companies								
O Baltimore Transit	2	—	—	—	—	—	—	—
O Capital Transit	20	\$.50	2.5%	Dec.	\$1.63	\$D.38	—	12.3
O Chic. S. S. & S. B.	8	1.00	12.5	Dec.	1.40	1.38	1	5.7
O Cinn. St. Ry.	5	.30	6.0	Dec.	.77	1.57	D51	6.5
O Dallas Ry. & Term.	11	1.40	12.7	Dec.	2.27	3.39	D33	4.8
O Duluth Sup. Trans.	9	1.00	11.0	Dec.	.44	2.75	D84	20.5
O Kansas City Pub. Ser.	2	—	—	June	.25	—	—	8.0
O Los Angeles Transit	4	.50	12.5	Dec.	.93	.87	7	4.3
S Nat'l. City Lines	7	.50	7.0	Dec.	1.97	1.57	25	3.6
O Phila. Transit	3	—	—	Dec.	1.03	.31	232	2.9
O Rochester Transit	3	—	—	—	—	—	—	—
O St. Louis Pub. Ser. A	4	—	—	Dec.	.70	.37	89	5.7
O Syracuse Transit	19	2.00	10.5	Dec.	1.40	3.52	D60	13.6
S Third Ave. Transit	4	—	—	—	—	—	—	—
S Twin City Rapid Tr.	7	—	—	Dec.	.39	.62	D37	17.9
O United Transit	3	—	—	Dec.	.13	.21	D38	23.1
Averages			9.3%					9.9
Water Companies								
<i>Holding Companies</i>								
S Amer. Water Works	8	\$.60	7.5%	Mar.	\$.88	\$.82	7	9.1
O N. Y. Water Service	27	1.00	3.7	June	6.19	1.93	221	4.4
O Northeastern Water	14	—	—	Mar.	1.27	.38	234	11.0
<i>Operating Companies</i>								
O Calif. Water Ser.	28	\$2.00	7.1%	May	\$2.46	\$1.99	24	11.4
O Elizabethtown Water	105	6.00	5.7	Dec.	6.89	7.33	D 6	15.2
S Hackensack Water	34	1.70	5.0	Dec.	2.79	3.08	D 9	12.2
O Indianapolis Water	17	.80	4.7	Dec.	1.42	1.19	19	12.0
O Middlesex Water	56	3.00	5.4	Dec.	4.94	5.71	D13	11.3
O New Haven Water	59	3.00	5.1	Dec.	3.61	3.34	8	16.3
O Ohio Water Ser.	19	1.50	7.9	June	2.15	2.29	D 7	8.8
O Phila. & Sub. Water	20	.80	4.0	Dec.	3.01	2.70	11	6.6
O Plainfield Union Water ..	67	4.00	6.0	Dec.	5.02	4.74	6	13.3
O San Jose Water	31	2.00	6.5	June	2.95	2.28	29	10.5
O Scranton-Spring Brook ..	10	.70	7.0	Mar.	.85	.85	—	11.8
O Southern Cal. Water	40	3.25	8.1	Dec.	4.18	3.92	7	9.6
O Stamford Water	53	2.00	3.8	Dec.	2.21	2.27	D 3	24.0
O West Va. Water Ser.	15	1.00	6.7	June	1.47	1.43	3	10.2
Averages			5.9%					12.4

D—Deficit. E—Estimated. C—Curb Exchange. O—Over-counter or out-of-town exchange.
S—New York Stock Exchange.

SEPT. 1, 1949

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RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

	8/9/49 Price About	Indicated Dividend Rate	Approx. Yield	12 Mos. Ended	Share Cur. Period	Earnings Prev. Period	% In- crease	Price- Earnings Ratio
Natural Gas—Retail								
C Arkansas Natural Gas ...	10	\$.40	4.0%	Dec.	\$1.44	\$.80	80	6.9
O Atlanta Gas Light	18	1.20	6.7	June	1.82	1.78	2	9.9
S Columbia Gas System	11	.75	6.8	Mar.	1.01	1.20	D16	10.9
C Consol. Gas Util.	12	.70	5.8	Apr.	1.78	1.53	16	6.7
S Consol. Nat. Gas	44	2.00	4.5	Mar.	3.46	4.58	D24*	12.7
O Houston Nat. Gas	14	.80	5.7	July	1.42	1.29	10	9.9
O Indiana Gas & Water	17	1.20	7.0	June	1.58	1.57	—	10.8
O Kansas-Neb. Nat. Gas ...	14	1.00	7.1	Dec.	1.70	1.36	25	8.2
*S Laclede Gas Light	7	.20	3.0	June	.92	.90	2	7.6
C Lone Star Gas	22	1.20	5.5	Mar.	2.07	2.15	D 4	10.6
O Minneapolis Gas	14	.80	5.7	Dec.	1.03	1.10	D 6	13.6
O Mission Oil	36	2.20	6.1	Dec.	2.05	2.04	—	17.6
O Mobile Gas Service	24	1.50	6.3	June	2.36	2.76	D14	10.2
S Montana-Dakota Util.	13	.80	6.2	June	1.35	1.30	4	9.6
C National Fuel Gas	10	.60	6.0	Apr.	.77	.78	—	13.0
*O National Gas & Elec.	7	.60	8.6	Dec.	1.51	1.64	D 8	4.6
C Okla. Natural Gas	30	2.00	6.7	June	3.25	3.36	4	9.2
S Pacific Lighting	53	3.00	5.7	June	3.59	4.92	D27	14.8
C Pacific Pub. Ser.	18	1.00	5.6	Dec.	2.43	1.91	28	7.4
*S Peoples Gas L. & C.	113	6.00	5.3	June	11.37	10.36	10	9.9
C Rio Grande Valley	2	.12	6.0	Dec.	.20	.21	D 5	10.0
O Rockland Gas	28	1.70	6.1	Dec.	2.73	3.36	D19	10.3
O Southern Union Gas	16	.80	5.0	Mar.	1.22	1.16	5	13.1
O Southwest Nat. Gas	4	.20	5.0	June	.34	.26	31	11.8
S United Gas	18	1.00	5.6	Mar.	1.59	1.66	14	11.3
S Washington Gas Light	24	1.50	6.3	Apr.	1.30	2.38	D45	18.5
Averages			5.8%					10.8
Natural Gas—Wholesale and Pipeline								
S El Paso Nat. Gas	26	\$1.20	4.6%	June	\$2.28	\$2.05	12	11.4
O Interstate Nat. Gas	26	2.00	7.7	Dec.	2.03	1.71	19	12.8
O Mississippi River Fuel ...	31	1.80	5.8	June	2.57	—	—	12.1
O Missouri-Kansas P. L.	25	1.00	4.0	Dec.	1.32	1.27	4	18.9
O Mountain Fuel Supply	16	.60	3.8	Dec.	.91	.94	D 3	17.6
S Northern Nat. Gas	36	1.95	5.4	Mar.	3.15	2.96	6	11.4
S Panhandle East. P. L.	55	3.00	5.5	June	4.66	4.56	2	11.8
O Republic Natural Gas	29	1.00	3.4	June '48	2.72	2.10	30	10.7
S Southern Nat. Gas	32	2.00	6.3	June	3.09	2.85	8	10.4
O Southern Production	7	—	—	Mar.	.38	.31	23	18.4
O Southwest Gas Prod.	7	—	—	Dec.	.47	.14	236	14.9
O Tenn. Gas Trans.	27	1.40 & Stk.	5.2	Apr.	2.09	—	—	12.9
Averages			5.2%					13.6
Manufactured Gas—Retail								
C Bridgeport Gas	22	\$1.40	6.4%	Dec.	\$1.60	\$1.69	D 5	13.8
O Brockton Gas L.	14	1.00	7.1	Dec.	.43	1.00	D11	32.6
S Brooklyn Union Gas	31	1.60	5.2	Dec.	1.21	D.29	—	25.6
O Hartford Gas	34	2.00	5.9	Dec.	1.85	2.10	D12	18.4
O Haverhill Gas L.	19	1.60	8.4	June	1.91	1.30	47	9.9
O Jacksonville Gas	31	1.40	4.5	Dec.	6.06	5.64	7	5.1
C Kings County Ltg.	6	.40	6.7	June	.13	—	—	—
O New Haven Gas Light	26	1.60	6.2	Dec.	1.76	1.77	—	14.8
O Providence Gas	10	.60	6.0	Dec.	.73	.64	14	13.7
O Seattle Gas	9	.25	2.8	Dec.	.70	.75	D 6	12.8
Averages			5.9%					16.8

D—Decrease or deficit. E—Estimated. C—Curb Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. *Company serves mixed gas but the trend in most cases is toward greater use of natural gas, hence we have dropped the separate classification.



What Others Think

Policy Guides for Good Labor Relations



POWELL C. GRONER, president of the Kansas City Public Service Company, in a recent address before the Fourth Annual Conference on Human Relations in Industry, described the theme of the conference—*human relations in industry*—as being “one of the most impelling problems which confronts our nation today.” Its solution, be it good or bad, will have far-reaching effects on “this last great citadel of free enterprise and democracy.”

The utility man pointed out that Communism, after paying lip service to the respect for the dignity of man, in practice actually subordinates him to the will of the state, while in contrast representative democracy is fundamentally based on the dignity of man, yet, nevertheless, it has not always fully adhered to this principle in actual practice.

Mr. Groner attributes much of this to the existence of autocracy in business and labor as well. He claims that the long-exploded theory of the “divine right of kings” is still being practiced by some managements when they continue to demand the right to run their businesses as they please and to hire and fire at their whim, without explanation or enlightenment to those engaged therein.

Labor, too, is guilty of this in that the leaders make uninformed and irresponsible demands after formulating them in “star chamber” proceedings in which the rank and file has had no real voice; and then seek to enforce these demands on not only the employer involved but on other employers and on the general public. He states:

I hold that such arbitrary action is an affront to the dignity of man—equally whether it is the “take it or leave it and walk-out” attitude of some managements or the “take it or leave

it and suffer a tie-up” attitude of some labor leaders. Neither makes for continued faith in our system of government which, although admittedly not perfect, is the best and has brought more advancement of any yet devised by the genius of man. Neither makes for harmony among our people. Neither makes for the humanizing of relations in industry. Neither adheres to the ideals of a representative democracy.

Both play unwittingly into the hands of those who would change us into a communistic state; and I say “unwittingly” because the sardonic feature of such course of action is that we thereby merely transfer to the state the autocratic powers being exercised by management or labor; whereupon the state promptly proceeds to enforce them far more completely and effectively than either management or labor ever did or could do.

MR. GRONER believes that it would be to the best advantage of labor and management to realize that they have important stakes in good public opinion which will be based on their employer-employee relationship. Since a business is totally dependent on what the public thinks of it, good public relations are absolutely essential.

To insure this, the speaker maintains that labor and management should less tend to air their differences in public with propaganda and name calling since this might well create ill feeling on the part of the public toward both labor and management. The speaker goes on to say:

Controversies between management and labor are to be expected—even strikes and lockouts from time to time

WHAT OTHERS THINK

—but when either side to such a controversy goes out to arouse public opinion against the other fellow, it is in reality befouling its own nest and adversely affecting the operation of the enterprise out of which they both make their living. Would it not be far better, when the parties have their differences, to do as does any respectable family, and make every attempt to settle them in private and not out in the gutter?

Mr. Groner then sums up what he considers to be a good labor relations policy for management to follow. It consists of a policy of:

- (1) Taking a personal interest in the welfare of the employees, without paternalism;

- (2) providing wages, working conditions, and stability of employment to the fullest extent commensurate with the ability of the company to do so under the facts and circumstances of the particular case, taking into consideration competitive conditions and the just interests of the investors and the public;

- (3) insisting with firmness upon retention of all authority for operating the business commensurate with the responsibilities of management to the investors, the employees, and the public, but not of despotic powers;

- (4) observing implicitly its contracts with labor, not only in letter but in spirit, and insisting upon similar observance by labor;

- (5) respecting labor's natural desire to be treated as human beings;

- (6) keeping labor adequately informed of the ways and wherefores of that policy and of the basic operations of the business—in short, of keeping labor "in on the know" in matters of mutual interest.

Such a policy, Mr. Groner believes, will win support and reverse hostile employee attitudes to the advantage of all concerned.

The utility executive then makes the observation that the days of "the

public be damned" attitude — either on the part of labor or management — have long since passed. A more appropriate attitude would be "the public be pleased." The abuses of the past should be buried with the past, since the present-day problems are such that they demand the highest degree of statesmanship in labor management relations. A rule of reason is recommended rather than one of the fang and the claw, since it will not be easy for management to assume increased financial burdens in the face of a falling market, even though the facts and circumstances may justify same in some instances; nor will it be easy for labor leaders to advocate a stabilization of those burdens, or a cut therein, even though the facts may indubitably show the necessity thereof. The speaker adds:

But whatever may come out of those dealings, the results thereof and the reasons therefor must be so "gotten across" to the rank-and-file employees, by joint effort of the managerial and labor leaders, so as to be reflected in sound employer-employee attitudes, not only towards each other but—even more important—in their impact on the public relations of the enterprise.

Mr. Groner cites the injustices to labor in the 1920's and puts the onus of blame on these injustices of management as being the cause for the pendulum to swing so far the other way during the period of the Great Depression and its political repercussions — so far, in fact, as to cause an autocracy of labor leaders to replace one of management with the end result being that labor was placed in a position where in the eyes of the law it could do no wrong and with powers invested in labor leaders far beyond what even the most reactionary business leader had ever aspired to exercise. "It is understandable," according to Mr. Groner, "that under those circumstances the 'heady wine of power' should cause excesses, with the rank and file of labor being led to look upon management as its natural enemy, worthy only of a hostile attitude and with anything suspect that it might do or say."

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THESE painful times were followed by World War II and the postwar boom where in a seller's market, labor costs were largely disregarded in the urge for more and more production. In view of the foregoing, it does not seem surprising to Mr. Groner that

in the cold grey dawn of the morning after — labor should fail in all instances to catch the changed signals and be fully in the play for customer satisfaction and good will. Is it any wonder that the workingman fails to realize in all instances that a full day's pay calls for a full day's work; that the easy money and the big profits are over; and that capital to expand plants and provide job openings is hard to get?

It is the job of business to undertake the lead in orienting labor to these new conditions and in improving its attitudes in the cause of better public relations. Loyalties must be won back to the extent that they have been lost. Business must be frank and fair with labor even to the extent that it may have to state unpalatable truths as to declining markets, increased competition, and the need for reducing costs. Patience and tolerance must prevail on the part of management if "sub rosa" opposition by labor leaders is encountered in attempting to bring about a successful accomplishment of

these orientation measures. The labor leader will have to become aware of the economic life as it exists today.

Mr. Groner then quotes from the July issue of the American Federation of Labor publication, *Monthly Survey*:

Perhaps your employer prospects are excellent. But if his profit margins are being squeezed by price declines, your future will be more secure if you help him improve his competitive position. This is viewed as a recognition of the sign of the times on the part of labor and most encouraging.

The speaker then concludes by crystallizing business production problems with the following:

The crying need today is for increased production at decreased cost — so as to permit an orderly retreat from the plateau of inflation where we have been so long entrenched. Failure to do so may convert that orderly retreat into a rout, with disastrous consequences to labor as well as to management. *Can we* on either side of the table — with justice to ourselves and our posterity — fail to accept that challenge?

Mr. Groner's remarks were of wide interest in that he reviewed a problem of immediate concern to both utility and businessmen as a whole.

Greeting the New Stockholder

THE operating and holding companies — which, as a result of their participation in the divestment proceedings under the Holding Company Act, find a host of new stockholders joining the corporate family — are extending a warm hand of welcome to these new members in the form of get-acquainted literature. Information of interest to the new stockholder — such as an introduction to the company officers and directors, geographic and economic data covering the service area of the utility, balance sheet and income figures, and plant and equipment information — are being

presented in the form of handsome brochures, well-illustrated booklets, and letters from the president, supplemented with general information about the operations of the utility. Notable among these are four presentations recently published by Middle South Utilities, Inc., the Southern Company, the Ohio Edison Company, and Consumers Power Company.

The Middle South publication is an informative brochure giving in word and photograph complete background information about the operations of the Middle South activity. Keynoting the book-

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"JOHN HENRY!!"

let and running through its 32 pages is a company emblem spotlighting the operating area on a globe of the world with the phrase: "The Middle South — A World of Opportunity." Pictures of the Middle South officers, its directors, and the officers of the operating companies — Arkansas Power & Light, Louisiana Power & Light, Mississippi Power & Light, and the New Orleans Public Service, Inc. — add a personal touch for the benefit of the reader. Matters of discussion include economic information about the area, operational data about each subsidiary, system planning, financing of construction, rural development, and balance sheet information.

Of novel interest should be the "area program," which is described as follows:

In the last decade the nation has begun to appreciate the potentialities of the Middle South. The exceptional growth and advancement which are taking place in Arkansas, Louisiana, and Mississippi are a measure of this interest and this awareness.

Believing that joint efforts to help in developing the area would be of value, the four operating companies inaugurated the Middle South area program. As part of the program these companies, through a central office, are coöperating to promote economic development. This office, known as the Middle South Area Office, occupies Room 211 in the new International Trade Mart in New Orleans and serves as a source of information about the area. The office employs a research staff and sponsors national advertising

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which calls attention to the opportunities in and the progress of the Middle South. The current series of advertisements in leading national media stress industry's confidence in the future of the Middle South.

A large hand map of the operating territories completes the Middle South story.

AN introduction to the Southern Company is available through the medium of the company's new publication, entitled "The Southern Company and the Territory It Serves." Its copiously illustrated pages, complete with descriptive comment, operating facts and figures, officer and personnel information covering the Southern Company and its operating subsidiaries, vividly present a well-rounded picture of the company's activities. Of the company's growth and opportunity, the booklet says:

The Southern Company, through its four operating subsidiaries, Alabama Power Company, Georgia Power Company, Gulf Power Company, and Mississippi Power Company, supplies electric service throughout an area of about 94,000 square miles in the Southeast, comprising most of the states of Alabama and Georgia and parts of Florida and Mississippi.

The electric facilities of these subsidiary companies constitute an integrated electric system. Power is produced by means of steam generating stations, run-of-river hydro stations and storage hydro stations, the operation of these diversified power sources being so coordinated by a central dispatching agency as to produce the required amount of power at the lowest cost consistent with a high degree of service reliability.

According to the publication, the integrated system of the Southern Company had its genesis in studies undertaken more than thirty years ago looking toward the interconnection of the transmission lines and the coordinated operation of the plants in the Southeast. Ten years later the integrated power system

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had become a reality. These studies were made under the direction of Eugene A. Yates, now president of the Southern Company.

The Southern Company's service area is a land of industrial and agricultural promise. Manufacturers are turning to the South in ever-increasing numbers, attracted by its natural resources, its populous markets, its adequate supply of readily trained, native-born workers, its friendly and cooperative people, its favorable climate, and other advantages.

A record of electrical progress is portrayed by the use of graphs showing the steady increase in the use of electric energy in the area in recent years. The orderly presentation of company information plus the impressive array of striking photographs combine to make the presentation a noteworthy piece.

ONE hundred and thirty thousand Commonwealth & Southern stockholders have just received a folder from the Southern Company containing a letter from E. A. Yates, president, in which he points out that upon surrender of their Commonwealth & Southern stock under the terms of the dissolutionment of that holding company, they will receive 35/100ths of a share in the Southern Company and 6/100ths of a share in Ohio Edison for each share of common stock held. Inasmuch as they now become stockholders in the Southern Company, Mr. Yates gives a brief statement concerning the activities of the Southern Company. A summary of trend of income showing the consolidated earnings for the year ending June 30, 1949, is also included in the folder as is a map of the operating territories.

This same group of stockholders also have received a letter of welcome from Walter H. Sammis, president of the Ohio Edison Company. This letter is included in a folder describing the activities of the company. The letter cites the continuous dividend-paying record of the utility and outlines the expansion program necessitated by the ever-increasing demands for the company's services. In the five remaining pages of the folder the Ohio

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Edison system is described for the information of the new stockholder.

President Justin R. Whiting of the Consumers Power Company has also extended a warm welcome to 16,000 preferred stockholders of Commonwealth & Southern, who will become stockholders in Consumers under the Holding Company Act divestment proceedings. In a letter written by Mr. Whiting to the new stockholders, he outlines the pro rata stock transfer arrangement and goes on to tell about the 40-year history of Consumers which has been marked with pioneering developments and improvements of enduring value to its customers

and to the electric and gas industries in general. The letter was accompanied by an illustrated pamphlet giving a brief outline of the company, and its services, showing the growth of the business. A noteworthy item in this outline points out that the Consumers Power Company is the largest electric and gas utility in the country which does not serve a metropolitan area. Being so situated the company has shown a marked growth resulting from a decentralization and diversity of industry.

All four of these publications demonstrate effective techniques in maintaining good management-stockholder relations.

Utilities Still Blue-ribbon Attractions For Investors

MERRILL LYNCH, PIERCE, FENNER, & BEANE has recently published for the investor an informative 28-page booklet on public utilities. The booklet, consisting of two sections, devotes the first 11 pages to an objective and factual recital of background information, both historical and current, aimed at giving the prospective utility investor a broad insight into the operations of the public utilities. The succeeding pages deal specifically with 44 utilities, giving operating information, capital structure, and past earning figures in each case.

Citing the public utilities as being relatively depression proof, the booklet begins:

Utilities are nearly depression proof because the bulk of their income is steady; the home owner, the apartment dweller, the shopkeeper, and the small businessman, all must have electricity and gas regardless of business conditions, and these people pay two-thirds of the country's electricity and gas bills. Purchasing power may drop, but houses must still be heated, rooms lighted, food cooked, stores kept open, laundries operated.

Despite the fact that two-thirds of the country's electricity and gas bills are paid

by the small users, the brochure points out that the industrial users account for more than one-half of the gas and electricity sold. This is explained by the lower rates charged by the heavy-consuming industrial customer, because of (1) the large quantities used, thereby making big, efficient generating plants possible, and (2) the necessity for allowing these economical rates to industry in the face of a continued possibility that industry will choose to generate its own power if utility-supplied power proves uneconomical.

Electricity sales of the past twenty years are reviewed as follows:

The demand for electricity has grown at an increasing rate. The utilities sold 30 billion kilowatt hours of electrical energy in 1918. Ten years later they sold more than double that amount, and in 1938 electrical sales increased to 93.7 billion kilowatt hours, more than triple 1918 sales. The rate of growth in the last ten years has been even more astounding: In 1948 utilities sold 240 billion kilowatt hours, almost three times 1928's sales and eight times as much as at the close of World War I.

As to the future, it is predicted that the continued rise in appliance sales

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will continue with the advent of new technological developments in the field and bear out the prediction of the Twentieth Century Fund that the American people will buy \$1.4 billion worth of appliances in 1950, eclipsing their mark of \$1 billion which they spent in the year 1948. As a result of this, the average home which used 853 kilowatt hours of electricity in 1938 and steadily increased to 1,563 kilowatt hours in 1948, is expected to go on to an average consumption of 2,000 kilowatt hours by 1955.

A contributing factor in this increase of electric power consumption will be the nation's farm population inasmuch as each year the farmer is becoming more and more aware of the various uses of electricity which are becoming so important in a competitive farm economy; e.g., hens lay more eggs when electric lights are kept burning in the hen house; few baby hogs die when an electric brooder is used; and water pumps and milking machines do one job while the farmer does another. What's more the farmer has the money to buy these appliances since his income today is at an all-time high, his cash reserves are way up, and his mortgage has been paid off or at least greatly reduced. All this adds up to the need for the utilities to continue expanding since in the business of selling electricity, generating capacity has to be there since, unlike merchandise, electricity cannot be stored.

As to the downward trend of fuel cost ratios, the report has this to say:

In 1928 the average utility used fuel equivalent to 1.73 pounds of coal to produce each kilowatt hour of electricity. This figure was steadily reduced each year until 1942 when it leveled out at 1.30 pounds per kilowatt hour.

This does not mean that utility design reached the peak of efficiency in 1942. Engineers have continued to design and build generating plants of increasing efficiency. Last year plants were built that needed only .71 pounds of coal to produce each kilowatt hour of electricity.

Other factors, such as the drop in coal and oil prices, plus a tapering off of labor demands, all combine to make the cost outlook a rather favorable one.

GOVERNMENT competition is discussed in connection with the power output of the hydroelectric projects and in particular with relation to the request by the government to Congress for funds to build a steam generating plant at New Johnsonville. On this subject of government competition, it is said:

Private utilities have more to lose from government competition than they have from government expansion into unexplored regions or from being bought out by the government.

In support of this the report refers to the case of TVA buying out the subsidiaries of Commonwealth & Southern, where they paid as much for the common stock as it would have brought in the open market. It also makes reference to the case of the American Power & Light's holdings in Nebraska (a state acquisition) where the state paid a sum that, reinvested in a similar project, would return as much as the subsidiaries earned. The St. Lawrence waterway project is not looked on as too great a threat to the utilities since the U. S. share of any power production would increase the total capacity available to the Northeast by only a small percentage, even if "the government makes an uneconomical investment in transmission lines of its own instead of selling the power to private companies for distribution."

Reference is made to a report of the 80th Congress (as reported in the *Electrical World*) wherein it is claimed that if TVA, Bonneville, and the Southwestern Power Administration had to pay their own way, as do private companies, their rates would have to be doubled.

On this subject, the booklet goes on to say:

The government has advantages in operating an electric utility, all of them financial. (1) All federally owned and most state and municipally

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owned utilities pay no taxes. And those that do, pay at a lower rate than privately owned utilities. Last year privately owned electric utilities paid \$763,000,000 in taxes. This amounted to 17.8 cents out of each revenue dollar, more than the total amount that the utilities paid in fixed charges and set aside for depreciation (15.2 cents).

(2) Governments pay less for the capital they use. They can borrow at a lower rate because they have the full credit of the government behind them and because the municipal and state bonds they sell are tax exempt. Besides they don't have to pay dividends, they can finance their utilities entirely by issuing bonds; most well-managed utility corporations will not issue bonds for more than 60 per cent of their capitalization.

Private utilities counter these advantages with efficient, profit-stimulated management.

The prospect of the application of atomic energy to the generating of electricity is pointed out in that atomic authorities expect to have an experimental electric plant running by 1957. Until then it will not be possible to determine whether electricity can be produced more cheaply by splitting atoms or by burning coal.

THE vast strides made by the natural gas industry are reviewed, with mention being made that natural gas was used as early as 1821 in upper New York state but that it remained for the discovery of vast reserves in Texas, Oklahoma, and Arkansas to spark the huge development of the industry as we see it today. Up until that time, investors would not risk capital in pipelines because of a wariness that the supply might peter out. As a result of this increased activity, "there are more miles of gas pipelines in the United States than there are of railroad track or oil pipelines. Yet natural gas companies will construct more pipelines in 1949 than they have in any previous year."

The report concludes as follows:

Thirty years ago experts prophesied that we would be out of natural gas by now; yet today we have more proved natural gas reserves than we ever had before.

True we use more gas every year; but we are still finding more gas than we use. In 1925 we used 1.2 trillion cubic feet of gas, while proved reserves were 23 trillion cubic feet. Last year we used 6 trillion cubic feet, found 14 trillion cubic feet, and had at the end of the year proved reserves of nearly 174 trillion cubic feet.

Common sense tells us that this can't go on forever. But until there is some indication of a change in the trend it would seem sensible to continue as we have. One hundred and seventy-four trillion cubic feet is a big cushion. And new fuels may be developed long before we use up all of our economically recoverable natural gas.

There is, then, as far as we can foresee, a practically inexhaustible supply of natural gas, waiting to fulfill the country's apparently insatiable demand.

In the conclusion of the natural gas discussion the brochure points out the mechanics of natural gas contract operations, explaining the nature of the "interruptible" type of contract and the methods used by the distributing utility in meeting the peak and low demand periods throughout the year.

A brief description of the functions of the regulating agencies, both state and Federal, shows the potential investor just how the rates of return are determined by the commissions and gives a brief outline of the "original cost" and the "replacement cost" methods of determining a rate base.

The effect of the Holding Company Act is discussed from the investor's point of view and the "ideal" capital structure as applied to utilities and recommended by SEC is brought out; namely, 50 per cent bonds, 25 per cent preferred stock, and 25 per cent common stock.

The report makes the following statement:

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An investor should analyze with great care an industrial corporation that has 50 per cent of its capitalization in bonds: but a utility that has, say only 25 per cent of its capitalization as debt, may not be taking full advantage of its excellent credit position. Fifty per cent debt does not endanger the credit of a utility because of its stable earning power, and most utilities pay about 3 per cent to borrow money on which they can earn 6 to 6½ per cent.

THE booklet goes on to say that utilities do not need much working capital and many of them can get by with only a small excess of current assets over current liabilities.

The capital procuring phase of utilities is dealt with as follows:

The utilities face the problem of getting the money they need to expand. The electric utilities, which had total plant of some \$16 billion in 1947, spent over \$2 billion on new construction in 1948, and will spend about as much in each of the next three years. The natural gas industry, which had assets of \$4.6 billion in 1948, will expand in like manner.

Here's the way the electric light and power utilities spent their money on construction last year:

Steam plants	\$ 819,000,000
Water power	86,000,000
Power lines	1,375,000,000
General plant	77,000,000
Total	\$2,357,000,000

In order to finance this program last year the electric utilities ploughed back more than \$1 billion of earnings and

sold new securities worth over \$1.3 billion. Total electric utility financing in 1948 follows:

Bonds (public offerings) .	\$ 996,641,000
Bonds (privately placed) .	156,525,000
Common and preferred stocks	297,460,000
Total	\$1,450,626,000

Of this sum less than 10 per cent went toward refunding; the rest, \$1,314,456,000 worth, was new capital.

As to future expansion the manual comments that ploughed-back earnings will help, but this enormous expansion cannot be self-financed. Some of the money will come from new bond and debenture issues, but many companies have reached their sound debt limit. As a result, this year, and in the years following, public utilities will issue more preferred stock, common stock, and common stock rights than they have recently.

Reiterating the opening remarks of the discussion, the booklet states in conclusion:

For those who desire a steady income or a hedge against a recession, an electric light and power company may be a good choice. The demand for electricity is steadily growing, and revenues will hold up despite a drop in purchasing power or a rise in unemployment. There is little chance that the cost of producing electricity will go up and it may go down.

It further states that natural gas companies will attract those who are interested in growth since "today's demand is unsatisfied, and tomorrow's needs appear insatiable."

Notes on Recent Publications

BALTIMORE HIGHLIGHTED. An interesting type of public relations promotion takes the form of an informative brochure entitled "Highlights of Growing Baltimore," which has been recently published and distributed by the Consolidated Gas, Electric Light & Power Company of Baltimore, Maryland.

This well-illustrated folder graphically

describes the expanding industrial area with all its possibilities, the activities of the utility in connection with industry, and the existing industrial operations.

It is noteworthy that several of the utilities throughout the country have used similar means of publicity to stimulate community interest.

The March of Events



In General

ABA Utility Section Program

THE Council of the Section on Public Utility Law of the American Bar Association has announced the program of the section during the American Bar Association meeting in St. Louis September 4th through 9th.

A preconvention meeting was scheduled for the council on the afternoon of Sunday, September 4th, at the Jefferson hotel at 2 PM, with Ivan Bowen of Minneapolis, chairman of the section, presiding.

The first meeting of the section was slated for Monday, September 5th, at 3.15 PM at the Kiel auditorium. At this session C. Oscar Berry of Washington, D. C., chairman of the Standing Committee to Survey and Report as to Developments during the Year in the Field of Public Utility Law, was to give the report of that committee. This was to be followed by panel discussions on developments during the year by the following panel members: William I. Aitken, of Lincoln, Nebraska, report on communications industries; Honorable Oswald Ryan, of Washington, D. C., vice chairman of the Civil Aeronautics Board, to report on transportation utilities; Francis G. Coates, of Houston, Texas, to report on electric and gas utilities; and Gilbert Nurick, of Harrisburg, Pennsylvania, to report on utility labor problems.

On the morning of Tuesday, September 6th, at 10 AM, the second session of the Section on Public Utility Law has slated a discussion on the subject of "depreciation in rate making." The program speakers were to be the Honorable Charles C. Wine, chairman of the Arkansas Public Service Commission, and Paul

Grady, a member of the firm of Price, Waterhouse & Company of New York city. A general discussion of the subject was slated to follow.

On the afternoon of September 6th at 2 PM the section program featured a discussion of "valley authorities" — the principal speakers listed were Representative Henry M. Jackson (Democrat) of Washington and J. K. Cheadle, a member of the bar of Spokane, Washington. Following the general discussion of valley authorities, the section was to receive a report of its nominating committee and proceed to its election of officers and members of the council.

The social activities of the section meeting featured the annual dinner dance to be given at 7.30 PM at the Missouri Athletic club on the evening of Tuesday, September 6th.

NARUC Meeting

WITH more than five hundred members registered in attendance, the National Association of Railroad and Utilities Commissioners held its sixty-first annual convention at Hotel Cleveland in Cleveland, Ohio, last month. The first session of the convention was called to order at 2 PM (Monday, August 8th) by the association's president, Justus F. Craemer of the California commission.

Following welcoming addresses on behalf of the state of Ohio, the city of Cleveland, and the host, the Ohio Public Utilities Commission, to which response was made on behalf of the association, Commissioner Craemer gave his address as retiring president. He stressed Federal taxes as an expensive factor in rate-fix-

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ing formulas—one which has put the state commissions in the middle between public utilities and their consumers. The speaker analyzed the underlying cause of the postwar trend towards rate increases and included as part of his address an interesting table showing composite gas, electric, and telephone bills for the 25 largest cities in the United States.

General Solicitor Frederick G. Hamley gave the report of the Washington office, which is the full-time headquarters of the association. Mr. Hamley reported on the legislative activities of the association, as well as its appearances before regulatory bodies and courts on bills and cases affecting the jurisdiction and policies of the state commissions.

The report of the executive committee was given by the association's first vice president, Harry M. Miller of the Ohio commission.

At the morning session of the second day there was featured a discussion of the problems involved in the regulation of small telephone companies. Commissioner Spencer B. Eddy, one of the discussion leaders, told of the plan of the New York commission in arranging with private banking interests in that state for the financing of such telephone companies as stand in need of new capital. He suggested that such a program was preferable to further encroachment from the Federal government in the field of state regulation, which might be the result if pending legislation in Congress authorized Federal financing through REA loans.

Another discussion leader was Commissioner Walter F. Roberts of Nebraska, who traced the development of independent small telephone companies and their present problems resulting from inflationary conditions. He said that it is in the interest of the subscriber that telephone plants be properly maintained without the intervention of government ownership or interference.

Vice Chairman Matt L. McWhorter of the Georgia commission presented at this session the report of the special committee cooperating with the FCC in studies of telephone regulatory problems.

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The morning session of the third day, Wednesday, August 10th, was taken up largely with committee reports, including the report of the executive committee on resolutions, all of which were adopted. These resolutions set forth the association's position with respect to bills pending in Congress, various amendments of the Interstate Commerce Act, Civil Aviation, Natural Gas Act, Federal practice and procedure, the Rural Electrification Act, the Revenue Act (principally repeal or reduction of excise taxes), and Federal Communications Act.

Other committee reports at this session included the committee on progress in the regulation of public utilities, headed by Ira H. Rowell of the California commission; the committee on legislation, headed by Chairman H. Lester Hooker of the Virginia commission; the committee on corporate finance, headed by Commissioner Harold A. Scragg of Pennsylvania. James J. Danaher, Illinois commissioner, was scheduled to discuss prudent investment.

Scheduled committee reports for the afternoon session included the report of the committee on cooperation between state and Federal commissions, headed by Nat B. Knight of the Louisiana commission; committee on valuation, headed by Commissioner Sam Bryan of Wisconsin; and the committee on rates of public utilities, headed by Commissioner Paul E. Weiland of Ohio.

The featured discussion was led by H. J. O'Leary, chief of the Wisconsin commission's rate department. He spoke of the functions of public utility rate making as a medium for price fixing. The speaker said that, in an economic sense, public utility rate making has been nothing more than price fixing.

At this session the election of officers for the coming year was announced as follows: Harry M. Miller, chairman of the Ohio commission, was elected association president to succeed Commissioner Craemer of California. Commissioner George H. Flagg of Oregon was elected first vice president, and Commissioner J. C. Darby of South Carolina was elected second vice president. Officers reelected

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included Frederick G. Hamley, general solicitor; Ben Smart, secretary-treasurer. The next meeting will be held in November, 1950, at Phoenix, Arizona.

The final day was given over to a morning session discussion on transportation regulatory problems, in which Commissioner Walter M. W. Splawn of the ICC and Dr. Ford K. Edwards of the ICC joined together with Chairman Walter R. McDonald of the Georgia commission. During the afternoon Commissioner John P. Randolph of Missouri led a discussion on disposition of refunds in natural gas impoundment cases.

Also on the final day, the following committee reports were scheduled for reception: safety of operation of transportation agencies; special committee on uniform motor freight and railroad classification; report on special committee to promote uniformity of regulations affecting motor carriers; progress in the regulation of transportation agencies; rates of transportation agencies; service and facilities of transportation agencies; special committee on business of secretarial offices; committee on depreciation; committee on accounts and statistics; and committee on engineering.

FPC Reports on Gas Authorizations

THE Federal Power Commission authorized construction of natural gas transmission facilities designed to add approximately two billion cubic feet of daily delivery capacity to the individual pipe-line systems in the United States during the 6-month period ending June 30, 1949, it was announced last month.

The authorized facilities involve an estimated total construction cost of approximately \$374,820,900, and will add about 4,900 miles of new pipeline to the

nation's natural gas systems. Of the total estimated construction cost, approximately \$351,723,600 was for major projects estimated to cost \$700,000 or more. These larger projects are expected to benefit 72 cities of 50,000 population or more in 16 states and the District of Columbia as well as numerous smaller communities.

The major projects will increase capacities of the systems involved by at least 1,907,100,000 cubic feet of natural gas per day, and involve construction of approximately 4,641 miles of new pipeline and installation of compressor units aggregating 363,800 horsepower.

The largest single authorization during the 6-month period was for construction by Trunkline Gas Supply Company of a pipeline extending from Texas to Nebraska.

Gas Expansion Plan Approved

A MOVE to bring natural gas into New England was indicated recently in an application by Tennessee Gas Transmission Company for Federal Power Commission authority to build a pipeline of 383 miles from Buffalo, New York, to Worcester, Massachusetts. Cost was placed at \$94,000,000.

The Tennessee Gas line has been reaching out toward the New England goal for some time, officials stated, and the company recently received approval for a line from Morehead, Kentucky, to Buffalo.

In addition to the main line of 383 miles, the application asks authority of 543 miles of loop lines paralleling existing lines, the installation of four new compressor stations totaling 34,000 horsepower, and enlargement of present compressor capacity by 51,200 horsepower.

California

Regional District Approved

GOVERNOR Warren recently approved legislation authorizing the San

Francisco Bay Area Metropolitan Rapid Transit District. The act, sponsored by nine San Francisco bay area counties, sets up steps for ultimate solution of

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rapid transit problems of those counties through an integrated transportation system. It specifically provides that the district shall include at least the city and county of San Francisco and the city of Alameda, Berkeley, Emeryville, Hayward, Oakland, Piedmont, and San Leandro.

In addition, it may include all or a

portion of Marin, Sonoma, Napa, Solano, Contra Costa, Alameda, San Mateo, and Santa Clara counties.

Provision is made for holding an election in each of the cities and the unincorporated territory of the counties involved as the initial move toward determining if any particular area is to be included in the rapid transit district.

Idaho

Ordered to Cease Construction

IDAHO POWER COMPANY was ordered last month to stop trespassing on public domain and cease construction of a \$3,000,000 transmission line in a temporary restraining order of Federal Judge Chase A. Clark.

The complaint was filed by the Bureau of Land Management. It charged Idaho Power trespassed on Federal land in construction of a 190-mile transmission line from Boise to American Falls, Idaho. Judge Clark's order prohibits further construction until permission is received from the Interior Department.

T. E. Roach, president of Idaho Power, said the action "can result in a power shortage next winter affecting homes, farms, stores, and industries of southern Idaho and eastern Oregon."

Interior Department Secretary J. A. Krug said the department has no desire

to deny beneficial use of public lands to anyone who seeks to obtain use in a lawful manner. However, the department "cannot condone occupancy and use of the Federal domain through such a flagrant instance of willful trespass without consent of the government."

The line would have connected the company's generating facilities between Boise and American Falls and a new dam now under construction at Bliss.

Injunction proceedings grew out of lengthy negotiations between the company and the Interior Department under which the government would be permitted to interconnect with the company's line and utilize the line's unused capacity to transmit government-generated power. When the company and the government failed to reach an agreement, Idaho Power proceeded to construct the line, 125 miles of which crosses public lands.

Maryland

Approves Conversion to Natural Gas

THE state public service commission last month authorized the Consolidated Gas, Electric Light & Power Company of Baltimore to convert to natural gas and said it expected rate reductions to result. It also approved exercise of the company's franchise for laying mains.

The action followed a brief hearing at which Charles T. Crane, executive vice president of the company, was the only

witness. The commission had participated in Federal Power Commission hearings in Washington and had been in close touch with that proceeding.

Consumer savings of \$7,500,000 in 1951, the first full year in which natural gas will be in use, were forecast by Mr. Crane. The changeover is scheduled to begin in May, 1950, and should result in a saving of \$2,500,000 in that year, he testified. He said a rate reduction would be sought as soon as gas-burning appliances had been converted.

THE MARCH OF EVENTS

Nebraska

Agree on Doubling Gas Company Tax

FOLLOWING a recent conference between Central Electric & Gas Company representatives and a special city council committee, Mayor Clarence Miles of Lincoln announced that the committee would recommend to the council a doubling of the occupation tax, a 20-year extension of the present franchise which expires in 1950, and a franchise provision

calling for payment by the company annually of a \$30,000 franchise tax. Payment would be in advance with the first one falling due September 3, 1949.

The company has been operating under a 10-year franchise but desired a longer term. It expressed a willingness to compensate the city by paying a franchise tax. The agreement reached by the committee was reported satisfactory to the company. Ratification by the council was considered certain.

New Jersey

Woman Named to Commission

GOVERNOR Driscoll last month announced the appointment of Mrs. Hortense Fuld Kessler of Newark, an independent Democrat, to the \$12,000

position as a member of the state board of public utility commissioners. The appointment is for an *ad interim* term to fill a vacancy caused by the death of Joseph A. Brophy of Elizabeth.

New York

Plan Held Outside FPC Authority

A FEDERAL Power Commission examiner last month held that the commission lacks jurisdiction over proposals by three New York city utilities to pool natural gas received from Trans-Continental Pipe Line Corporation, Longview, Texas.

Examiner Emery J. Woodall said the utilities—Consolidated Edison Company of New York, Inc., Brooklyn Union Gas

Company, and Kings County Lighting Company—now are engaged solely in local distribution of artificial gas.

He said they plan to make solely local distribution of natural gas to be delivered at Trans-Continental's connection with Consolidated Edison in New York city, and there will be no interstate transportation involved.

If no objections are filed within forty-five days, the commission may accept the examiner's findings as its own.

South Carolina

Utilities' Suit Dismissed

A SUIT by three private utilities against the Santee-Cooper Authority, state-owned public power agency, was dismissed recently by the state supreme court. An unanimous opinion by Associate Justice Stukes reversed a lower

court decision which overruled Santee-Cooper's contention that the utilities had no case. Santee-Cooper had appealed from the lower court ruling.

The high court directed that Santee-Cooper's contention, a demurrer to the utilities' action, be sustained. This had

PUBLIC UTILITIES FORTNIGHTLY

the effect of dismissing the action and ending the case.

The companies sought an injunction

against a contract between Santee-Cooper and the Central South Carolina Electric Power Cooperatives, Inc.

South Dakota

Special Session Considered

GOVERNOR Mickelson said recently he had been considering the calling of a special session of the state legislature to weigh Missouri basin power problems. He said the "idea of calling a special session is not new but has been under consideration here for some time. Before calling a special session, however, we will continue to attempt a solution of

equal distribution of power by other means."

The governor said a special session of the legislature at this time would be almost impossible "because many members of the law-making body are farmers in the midst of harvesting crops."

Mickelson made this reply to a special session proposal made by Senator Mundt (Republican, South Dakota).

Tennessee

Coöperatives Held Liable

THE state attorney general's office recently expressed the opinion that a 1945 state law exempting electric coöperatives from ad valorem property taxation is unconstitutional. The act proposed to exempt coöperatives built after January 1, 1945, from ad valorem taxation for the first four years of their operation.

The opinion was given by Solicitor General W. F. Barry in answer to a request from Commissioner J. B. Avery, Sr., of the state railroad and public utilities commission. Barry said the commission "should disregard this unconstitutional act in assessing the properties of

these general welfare coöperatives for taxation."

The opinion said electric coöperatives are not covered by a section of the state Constitution which permits the legislature to exempt from taxation properties "held by the state, by counties, cities, or towns."

Leaders of Tennessee's 23 rural electric coöperatives were reported mapping a fight against the state's effort to increase coöperative property taxes by 332 per cent. The co-ops declared the record-breaking assessments, levied last month by the state railroad and public utilities commission, threaten their financial stability, and may halt line extension.

Vermont

Rate Increase Termed "Unjust"

THE state public service commission last month ruled that the Central Vermont Public Service Corporation's request for rate increases against Vermont residential customers amounting to \$337,000 is "unjust and unreasonable."

The commission allowed only one-

fourth of the amount asked—\$85,000. It granted, but only on a temporary basis, the full amount of the new charge requested from Rutland gas users—\$43,000.

The new gas rates went into effect immediately. The electric rates would become effective when the utility filed a new schedule with the commission.



Progress of Regulation

Telephone Company Permitted to Sell Stock to Parent Company at Par

THE New York Telephone Company was permitted by the New York commission to issue and sell at par 1,000,000 shares of its common stock having an aggregate par value of \$100,000,000 to its parent, the American Telephone and Telegraph Company. The issuance of common stock instead of preferred stock or bonds seemed desirable in order to keep down the debt ratio, and it was thought that issuance of preferred stock would damage the position of the equity investor to a greater extent than the issuance of further debt. Commissioner Mylott said:

This is necessarily so for the reason that, while a prior claim on the assets exists in either route adopted, there is imposed a greater drain on earnings because preferred stock capital sells at a higher yield than debt capital for the same company.

It was shown that the presently outstanding common stock had a book equity of approximately \$109 per share. It might be claimed that such equity should be increased to about \$120 per share because of an admission by the company that the balance in its depreciation reserve was excessive. Such contention was termed fallacious, however, and could not be accepted.

The so-called excessive amount in the depreciation reserve had been charged to operating expenses and collected from subscribers at the rates paid for service. If one were now to propose that this

excess should be considered a part of the common stockholders' equity, it would give the company a windfall to which it was not rightfully entitled and, in fixing future rates, would deprive subscribers of a credit which equitable considerations dictate they should receive.

Commissioner Mylott, in his decision, discussed market value or investor appraisal involving questions of dividends paid and earnings ratios. In the instant case market value was theoretical as all presently outstanding common stock was held by the parent company. Commissioner Mylott continued:

It must be recognized that the relationship between rates, earnings, and dividends is not coordinated. The earnings of the company affect its dividend policy. On the other hand, the income received from subscribers will be affected by the claims thereon, depending upon the proportion of the segments of capital (bonds and stock) used and taxes paid before such income becomes earnings available for dividends. It is obvious, therefore, that to attempt to determine stock values through dividends removes the locus of attention from the value of property dedicated to public service, to the market value for securities. This means that such a determination would lead not to how much should be earned on the property but to how much will be earned on the securities, the value thereof being determined by the quotient of going interest rates and divi-

PUBLIC UTILITIES FORTNIGHTLY

dends paid. Further, such determination becomes one of fixing the number of units of a security that may be issued based upon the earning power of the company irrespective of whether such earning power is based on reasonable rates, rather than one of fixing the number of units of a security that should be issued as evidenced by the dollars invested in sound property values.

The company, it was concluded, should not be required to issue the proposed stock on the basis of theoretical market

value. On the other hand, if it were required to issue stock as a result of competitive bidding, it would follow that the parent company was being penalized because of the fact that the subsidiary under the parent's management had been, generally speaking, earning and paying an \$8 dividend on its common stock. To fix the price of the proposed stock on this basis would, in effect, mean the capitalization of earnings and the fixing of rates thereon rather than on sound property values used and useful in the service of the public. *Re New York Telephone Co. (Case 14265).*



Sale Value and Replacement Value Figures Called Unreliable

THE Kentucky commission refused to approve gas rate increases where a return of 6.14 per cent under present rates was indicated. The commission used investment as the rate base in the absence of other satisfactory evidence.

The company introduced a replacement value figure, but the commission said this figure could not be accepted because, on the one hand, it did not include production facilities and, on the other hand, it did not make allowance for accrued depreciation. The company stated a "sale value" which was a computation arrived at by means of multiplying the number of meters by \$200 each. Obviously, said the commission, no weight could be given such a speculative figure.

There had been some unusual expense in the test year because of the drilling of a dry hole. The commission said this expense should be amortized over a period of five years as the company had

incurred such expense only once during the past five years.

The company had been charging \$6,000 per year to expense for management, superintendence, and office help. The company has only some 450 customers and its gross revenue in 1948 was less than \$18,000 and its total adjusted expenses, excluding general office salaries, were only \$11,660 including depreciation. Manifestly, said the commission, this \$6,000 expense was unreasonable for rate purposes. An allowance of \$300 a month was said to be sufficient. The owner of the company did not devote all of his time to the operation of the utility.

Interest was excluded from operating expense. Depreciation expense was reduced to 3½ per cent of plant as shown on the books of the company, in place of a larger allowance which had been made in 1948. *Re Momarc Utilities Corp. (Case No. 1809).*



Book Figure for Depreciation Stands until Proved Wrong

A GAS company seeking approval of a rate increase by the Kentucky commission was denied a smaller deduction for accrued depreciation than the figure originally shown on its books. The company had reduced its reserve by making a concurrent credit to capital surplus. The commission was unable to say what

amount was correct or incorrect. The commission said:

However, the company has failed to show that its estimated reserve requirement is more reliable than the original book figure. Therefore, the book figure must stand. The most commonly accepted method of accruing reserves

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for depreciation is the straight-line method. Under this method depreciation is accrued on the estimated service life of the property, giving consideration to wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities. In making a reserve requirement study the same factors are considered. Obviously, then, the depreciation reserve under either method is based on theory. We do not believe that the book figure should be changed except in instances where there is clear and convincing evidence that the existing reserve is incorrect and further that the proposed amount to be set up is a correct one.

Most weight was given to original cost in determining the rate base, in the absence of satisfactory evidence as to other factors such as history and development of the utility and its property, cost of reproduction, and invested capital. The company contended that the proper rate of return was $6\frac{1}{2}$ per cent, but the commission allowed \$12,000 annually on a rate base of \$200,000. The commission was of the opinion that the rates allowed would enable the company to pay all fixed charges, operating expenses, set aside an adequate reserve for depreciation, and attract sufficient capital. It was noted that the company had availed itself of low interest rates on its borrowed capital. *Re Taylor-Green Gas Co. (Case No. 1839).*



New Paper-shipment Rate Rejected

THE Colorado commission refused to allow a railway express agency an increase in the rate for transportation of newspapers in the absence of specific evidence justifying the higher rate. The commission commented that it is "im-

practical if not impossible to authorize rate increases for specific commodities where it is not certain whether the shipments of the commodities are at a profit or loss." *Re Railway Express Agency (No. 287, Decision No. 32794).*



Insufficient Evidence Prevents Rate Increase

THE Washington commission denied the request of several railroads engaged in the transportation of petroleum products that they be permitted a parity with proposed truck rates and also a parity with barge rates in the Columbia river area. No evidence was offered with respect to the costs of operation or the volume of traffic movement.

In the absence of such evidence, the commission pointed out, the railroads could not be said to have sustained the burden of showing that the rates proposed would result in reasonable compensation for the services rendered. *Re Intrastate Rail Freight Rates and Charges et al. (Cause Nos. T-8180, T-8181).*



Emergency Rate Relief Denied When Confiscation Not Proved

AN application for temporary and emergency rates filed by the Southwestern Bell Telephone Company was denied by the Missouri commission. Emergency relief, said the commission, was sought on two grounds: (1) to pre-

vent the property from being confiscated, and (2) to reach the objectives of a previous commission order.

The evidence, said the commission, failed to show that the property would be confiscated unless immediate relief

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were granted. All that the company proved was that net earnings would be reduced to 3.4 per cent under a commission formula (formula 38-A) and to 3.5 on an original cost less depreciation reserve rate base, should it lose in litigation pending in the courts involving the prior order. If it prevailed, its net earnings would be 4.5 per cent or 5.1 per cent under like rate bases.

The record was said to be void as to how such an operation would affect the company. One who pleads confiscation, declared the commission, must prove confiscation, and this the company had failed to prove.

As to the matter of restoring the company's earnings on a level commensurate to those prescribed in the previous order, the commission said it would pass upon that following a proceeding in which all interested parties have had their day be-

fore the commission. Such a proceeding involves the proposition of prescribing permanent rates which will allow a reasonable return to the company in the future, and it is "altogether different than one involving the emergency needs" of the company.

The views of the commission in the earlier case are shown in *Re Southwestern Bell Teleph. Co.* (1949) 77 PUR NS 33, although because of technical defects that report and order were held by a court to have no validity, resulting in a new order on February 25, 1949, repeating the same rulings as in the decision mentioned. (See 77 PUR NS 62.) The circuit court of Cole county, on May 21, 1949, reversed the commission decision of February 25, 1949. A motion for rehearing was pending in the circuit court. *Re Southwestern Bell Teleph. Co.* (Case No. 11,634).



Revision of Electric Extension Rules Approved

An electric company was authorized by the Michigan commission to revise its electric extension rules in view of increased construction costs. It proposed to reduce the free extension allowance in order to require customers more nearly to pay their way.

It was said that much construction was now in territory where seasonal resort service and rather poor farming conditions prevailed. The commission explained the revision as follows:

Applicant proposes to reduce its present allowance of 2,640 feet of free extension in the case of rural customers to 2,000 feet, and its present allowance of 660 feet of free extension in the case of urban customers to 500 feet.

Applicant further proposes to increase its charges for that portion of

the length of extension in excess of the free allowance from the present charge of 20 cents per foot in rural territory to 22 cents per foot, and from the present charge of 30 cents per foot in urban territory to 33 cents per foot.

The commission provided in its order that the application of these revised rules should be such that even after a 5-year development period has expired, when additional customers are connected to lines on which the minimum charges of the customers' rates have been increased because of excess length of line, such minimum charges will be reduced whenever the connection of such additional customers acts to reduce the average length of line per customer. *Re Menominee & Marinette Light & Traction Co.* (D-3050-49.4).



Oral Argument Not a Constitutional Requirement

THE United States Supreme Court reversed and remanded an order in which the United States Court of

Appeals refused to decide whether one radio station had the right to intervene in a proceeding by another station before

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the Federal Communications Commission to obtain a broadcasting permit to operate over the same frequency in a different part of the country.

The commission had refused to allow oral argument on the question of intervention and the court of appeals considered this error and refused to pass on the merits of the case until oral argument had been afforded.

The Supreme Court, in sending the case back to the court of appeals, overruled that court's view on the need for oral argument. The Supreme Court pointed out that opportunity for oral

argument is not an essential element of due process but that a party's right to argue a matter would vary with different circumstances.

A request by the station wishing to intervene that the court order the postponement of the proceeding until disposal of its own application for a clear channel station license, which would protect its frequency, was denied. The Supreme Court pointed out that no court has jurisdiction to decide for the commission in what order it would hear its cases. *Federal Communications Commission v. WJR et al.*



Island Air Service Too Costly

THE Civil Aeronautics Board rejected an application for authority to transport persons, property, and mail between the mainland and island points in a Lake Michigan resort area. The postal department had indicated that it did not favor the proposed operation since the amount of revenue involved would not compensate for the cost of the service.

Residents of the island opposed the application and said that their welfare was tied very closely with the success of the boat operation between the island

and the mainland, which might be impaired by the proposed air service. The residents further indicated that much of the merchandise brought in from the mainland was too heavy to be carried by air.

The board ruled that existing transportation facilities were adequate for the present volume of traffic, and that every benefit to the public which might result from the proposed service would be outweighed by the cost of the service to the government. *Re Emery (Docket No. 2372).*



Ordinance Limiting Bus Stops Held Discriminatory

A TOWN ordinance was declared invalid by the Texas Court of Civil Appeals where its effect was to regulate intercity traffic and to deny to one motor carrier a privilege granted to a competitor.

The ordinance established five bus stops where passengers could be picked up and discharged along a broad highway with broad unpaved shoulders on each side of the road going through the town. The ordinance provided that a carrier obtaining a town franchise could stop anywhere. There was virtually no service wholly within the town.

The carrier complaining of the ordi-

nance had not obtained a franchise and had lost a considerable amount of business because of the walking required of passengers desiring to use its service. Its competitor's service, on the other hand, had increased because of the convenience which unlimited stops afforded.

The court ruled that the ordinance was discriminatory and consequently could not be upheld. While a town could regulate traffic over its streets, its regulation was required to be reasonable. Such a regulation of intercity traffic as the ordinance complained of could not be considered reasonable. *Ascarate v. Villalobos, 220 SW2d 727.*

PUBLIC UTILITIES FORTNIGHTLY

Telephone Extension Rule Approved

THE Michigan commission authorized a telephone company to file a plan for extensions requiring the company to furnish two-tenths of a mile of pole-line construction to reach a new rural customer located in its exchange service

area. Extensions in excess of two-tenths of a mile are to be paid for by the customer upon the basis of the current average cost of construction as filed by the company with the commission. *Re Crystal Teleph. Co. (T-250-49.2).*



Other Important Rulings

THE New Jersey board, in authorizing increased water rates, ruled that a flat rate schedule was discriminatory to customers who did not use hose connections and required provision for a charge of \$20 annually to customers not using such a connection, while users of hose connections would be charged \$25. *Re Bassett Park Asso. (Docket No. 4453).*

The South Carolina commission decided that the present rule governing the hours during which freight stations

should be kept open should be vacated, for at least a brief period of time, so as to permit the trial of a 5-day, 40-hour work week for nonoperating employees, the railroad companies having asserted that of late years business and manufacturing concerns had adopted the 5-day week on a widespread scale and that the closing of many freight stations on Saturdays and Sundays would conform to the trend in other industries. *Re Atlantic Coast Line Railroad Co. et al. (Docket No. 6553, Order No. 6621).*

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Public Utilities Reports (New Series) are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual Digest \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

SECURITIES AND EXCHANGE COMMISSION

Re American Power & Light Company
et al.

File No. 70-2131, Release No. 9150
June 8, 1949

APPPLICATION by holding company and subsidiary for authority to issue and sell stock of the subsidiary and for exemption from competitive bidding of all or a portion of such securities; denied unless amended to provide for sale of entire amount of stock as one transaction.

Security issues, § 112 — Exemption from competitive bidding — Sale of common stock of subsidiary.

1. The opinion of the management of a holding company and its subsidiary that a better price for the common stock of the subsidiary would be received and that greater flexibility would be obtained under a negotiated deal than under competitive bidding was not deemed a persuasive basis for a request for exemption from competitive bidding with respect to the sale of a portion of such stock rather than the whole block of stock, p. 70.

Security issues, § 112 — Exemption from competitive bidding.

2. The granting of an exemption for a particular sale of common stock of a subsidiary at a particular time is not a basis for claiming an exemption for a different sale of stock of the same company at a different time, p. 70.

Security issues, § 112 — Exemption from competitive bidding — All or portion of stock.

3. That the common stock of a subsidiary of a holding company was relatively unseasoned, that the company was relatively small and little known, and that the market for the stock was consequently only moderately absorptive, furnished an insufficient basis for exemption from competitive bidding requirements of the sale of a portion of such stock, although such facts were given weight, but these facts were considered of sufficient weight, so far as marketing the entire block was concerned, to make it reasonable for the management to determine not to undertake a sale of the entire block at competitive bidding, p. 71.

Security issues, § 112 — Exemption from competitive bidding.

4. An application by a holding company and its subsidiary for exemption from competitive bidding requirements of the sale by the holding company of all of the common stock of the subsidiary by it and the issue and sale by the subsidiary of all of the additional new common stock to be issued by it, was deemed justified where the testimony indicated that the sale of the shares in two or more transactions might have the effect of delaying compliance with § 11(b)(2) of the act, 15 USCA § 79k(b)(2), and with the Commission's dissolution order and where the subsidiary urgently needed money for construction purposes and a pro rata reduction in the number of

SECURITIES AND EXCHANGE COMMISSION

shares to be sold by it would in some measure interfere with the planned financing of its construction program, p. 71.

APPEARANCES: A. J. G. Priest and Edward D. Wells of Reid and Priest, for American Power & Light Company and Kansas Gas and Electric Company; William N. Mason and John L. Grose of LeBoeuf & Lamb, for prospective underwriters; Paul S. Davis, David Ginsburg and George L. Rodgers, Jr. for the Division of Public Utilities of the Commission.

By the COMMISSION: American Power & Light Company ("American"), a registered holding company subsidiary of Electric Bond and Share Company, also a registered holding company, and Kansas Gas and Electric Company ("Kansas"), an electric utility subsidiary of American, have filed a joint application-declaration and amendments thereto pursuant to the Public Utility Holding Company Act of 1935 and have designated §§ 6(a), 7, 11(b), 11(e), and 12(d) of the act, 15 USCA §§ 79f (a), 79g, 79k (b), (e), 79l (d), and Rules U-44 and U-50 thereunder as applicable to the proposed transactions. American proposes to sell its entire investment in Kansas consisting of 450,000 shares of no-par value common stock, and Kansas proposes to issue and sell for its own account an additional 100,000 shares.

American and Kansas request an exemption from the competitive bidding requirements of Rule U-50. It is proposed that American and Kansas negotiate with underwriters for the sale of the entire 550,000 shares, but that if negotiation on this basis proves impossible or unsatisfactory,

only a part of the shares is to be sold in this offering and the remainder later. It is proposed that in the event American and Kansas determine that the shares will be sold in two transactions, each will reduce its aggregate offering on a pro rata basis. In other words, if American should presently offer 225,000 shares, or 50 per cent of holdings, Kansas would reduce its proposed issue and sale proportionately to 50,000 shares.

American will use the proceeds from a proposed sale, together with other corporate funds, to make additional equity investments of \$7,000,000, \$6,000,000, and \$2,500,000 respectively in Texas Utilities Company ("Texas Utilities"), Florida Power & Light Company ("Florida"), and Pacific Power & Light Company ("Pacific"), which companies are also subsidiaries of American. The additional investments in Florida and Pacific will be used for construction programs of these companies now under way. The additional investment in Texas Utilities, a registered holding company, will be used to purchase additional common stock of its electric utility subsidiary, Texas Power & Light Company ("Texas Power"), and to liquidate short-term bank borrowings originally executed to enable Texas Utilities to make additional equity investments in its electric utility subsidiary, Texas Electric Service Company ("Texas Electric Service"). Texas Power and Texas Electric Service will use the proceeds from such additional investments for construction purposes. Kansas

RE AMERICAN POWER & LIGHT CO.

likewise will use the proceeds from its sale for construction purposes and to liquidate bank borrowings originally made for such purpose.

American states that it may be necessary to make the proposed investment in Texas Utilities and Florida prior to the time when American will sell the Kansas common stock. In such event American proposes to borrow from banks amounts not to exceed \$13,000,000, which sums would be repaid from the proceeds of the sale of the Kansas common stock.

After appropriate notice a public hearing was held. The Commission's Division of Public Utilities opposed the requested exemption from Rule U-50 and we heard oral argument on this matter. We have examined the record and make the following findings:

American, incorporated under the laws of the state of Maine, is one of the principal subholding companies in the Electric Bond and Share holding company system. On August 22, 1942, this Commission issued an order requiring the dissolution of American and directing American and/or Bond and Share to proceed with due diligence to file a plan or plans for the effectuation of such order.¹ On April 8, 1949 American and Bond and Share filed an application under § 11 (e) of the act for approval of a plan, designed to effectuate substantial compliance with our dissolution order. Hearings on this plan, as amended,

have been completed, and the matter is now before the Commission for consideration.

Kansas is a corporation organized under the laws of the state of West Virginia. The company is subject to the jurisdiction of the State Corporation Commission of Kansas and the Federal Power Commission. Its principal office is at Wichita, Kansas. The company is engaged in the generation, purchase, transmission, and distribution of electric energy in the territory comprising most of the Southeastern portion of Kansas. The area served covers approximately 6,000 square miles and includes a very small section of Missouri adjacent to the Kansas state line. Electric service at retail is provided to 114 communities having an aggregate estimated population of 304,000. Wichita, having an estimated population of 160,000, provides approximately 50 per cent of the total revenue received by the company.

American presently owns 450,000 shares or 75 per cent of Kansas' common stock which represents 67.9 per cent of the total voting power of the securities of Kansas outstanding. American owned the entire 600,000 shares of common stock until May, 1948, at which time it sold 150,000 shares at a price of \$24.50 per share to an underwriting group, which sold such stock to the public at a price of \$26 per share.²

Appendix A [omitted herein] pre-

¹ Re American Power & Light Co. 11 SEC 1146, 46 PUR NS 321, aff'd (1944) 53 PUR NS 16, 141 F2d 606, aff'd (1946) 329 US 90, 91 L ed 103, 66 PUR NS 33, 67 S Ct 133.

² See Public Utility Holding Company Act

Release Nos. 8181, May 5, 1948, and 8213, May 14, 1948. A summary of the market history of such stock from June, 1948, to May, 1949, is as follows:

SECURITIES AND EXCHANGE COMMISSION

sents a condensed balance sheet as of April 30, 1949, and pro forma to reflect the proposed transactions. Appendix B [omitted herein] presents a condensed income statement for the twelve months ended that date. Table I on following page sets forth the capital structure of Kansas as of April 30, 1949, per books and pro forma giving effect to the issue and sale of 100,000 shares of no-par value common stock.³ In setting forth the figures in the pro forma column we have taken the company's assumption which was made for purposes of illustration only, that the new issue of common stock would net the company \$29 per share.

Kansas' gross utility plant was stated as of April 30, 1949, at \$46,342,189 of which \$849,711 was classified as Electric Plant Acquisition Adjustments—Account 100.5.⁴ The reserve for property retirements of \$8,320,151 was approximately 19.9 per cent of depreciable property at that date. The property retirement reserve appropriation for the year ended April 30, 1949, was \$932,333, equivalent to approximately 2.4 per cent of average depreciable property for the period.

The company's electric plant is stated on the basis of original cost pursuant to an order of the Federal Power Commission. A reserve for electric

plant acquisition adjustments—Account 100.5 of \$856,859 has been provided by charging income with equal annual amounts of \$85,686 from June 30, 1943 through December 31, 1948, and by charging earned surplus as of January 1, 1949, with the unamortized balance of \$385,586.65.⁵

Unamortized debt discount and expense of \$38,539.91 at April 30, 1949, is applicable to the first mortgage bonds, 3½ per cent series, due 1978 and is being amortized on a straight-line basis over the life of the issue. Unamortized debt discount and expense, including all premiums, relating to retired securities was amortized up to January 1, 1949, at the rate of \$220,000 annually since refunding dates. As of January 1, 1949, such unamortized balance of \$1,091,256.95 was charged to earned surplus.

For the year ended April 30, 1949, operating revenues per books were \$12,715,884, gross income was \$2,954,694, and earnings for the common stock were \$1,627,274. Funded debt interest requirements of \$696,250 were earned 4.24 times and total income deductions and preferred stock dividend requirements of \$1,327,420 were earned 2.23 times. Earnings applicable to common stock amounted to

Date	Bid	Asked
6-2-48	—	26
6-22-48	—	25½
7-20-48	24½	—
9-2-48	24½	25½
10-6-48	24½	25
11-17-48	—	23½
12-20-48	22½	—
1-25-49	23	—
2-1-49	24	—
3-1-49	25½	—
4-2-49	26½	26½
5-2-49	27½	28
5-20-49	27½	28½
6-8-49	26½	27½

³ As shown hereafter, we shall not permit Kansas to sell less than 100,000 shares, except at competitive bidding.

⁴ Amounts classified in Account 100.5 represent, generally speaking, the amounts by which the arm's-length cost to the company of property exceeds the original cost of such property.

⁵ A credit of \$7,147.96 to electric plant acquisition adjustments—Account 100.5, arising in connection with acquisitions made subsequent to the original cost studies, which amount was not amortized, accounts for the excess reflected in the reserve account over the balance recorded in Electric Plant Acquisition Adjustments, Account 100.5, as of April 30, 1949.

RE AMERICAN POWER & LIGHT CO.

TABLE I

	Per Books		Pro Forma	
	Amount	%	Amount	%
Long-term Debt:				
First Mortgage Bonds				
38% Series, due 1970	\$16,000,000	42.92	\$16,000,000	39.82
34% Series, due 1978	5,000,000	13.41	5,000,000	12.45
Total Long-term Debt	<u>\$21,000,000</u>	<u>56.33</u>	<u>\$21,000,000</u>	<u>52.27</u>
Preferred Stock:				
7% Cumulative, par \$100				
62,618 shares outstanding	\$6,261,800	16.80	\$6,261,800	15.59
\$6 Cumulative, no par,				
13,743 shares outstanding	1,397,356	3.75	1,397,356	3.48
Total Preferred Stock	<u>\$7,659,156</u>	<u>20.55</u>	<u>\$7,659,156</u>	<u>19.07</u>
Premium on Preferred Stock	<u>\$6,990</u>	<u>.02</u>	<u>\$6,990</u>	<u>.01</u>
Common Stock and Surplus:				
Common Stock, no par				
600,000 shares per books	\$6,000,000	16.10	—	—
700,000 shares pro forma	—	—	\$8,900,000	22.15
Capital Surplus	82,378	.22	82,378	.21
Earned Surplus *	<u>2,527,792</u>	<u>6.78</u>	<u>2,527,792</u>	<u>6.29</u>
Total Common Stock and Surplus	<u>\$8,610,170</u>	<u>23.10</u>	<u>\$11,510,170</u>	<u>28.65</u>
Total Capital Structure	<u>\$37,276,316</u>	<u>100.00</u>	<u>\$40,176,316</u>	<u>100.00</u>
Pertinent Ratios:				
Bonds to Net Plant		56.52%		53.10%**
Bonds and Preferred Stocks to				
Net Plant and Other Net Assets		77.59%		71.99%

* Earned Surplus in the amount of \$1,100,980.35 is restricted against the payment of common stock dividends by the terms of the Second Supplemented Indenture dated March 1, 1948. Of this amount \$563,163.50 is restricted against the payment of preferred and common stock dividends pending disposition of reacquired capital stock.

** For the purpose of computing the ratio of bonds to net plant, pro forma, there has been added to such net plant the proceeds from the proposed sale of common stock (as assumed by Kansas for purposes of illustration only) to be devoted to construction purposes. As of April 30, 1949, such amount would have been \$2,384,500.

\$2.32 per share on 700,000 shares, including the 100,000 shares proposed to be issued.

During the years 1947 and 1948 dividends were paid at the rate of \$1.60 per share; for the first quarter of 1949 there was paid a dividend of 45 cents per share and for the second quarter a dividend of 50 cents has been declared. An officer of the Kansas Company testified that it is the present intention of the management that the dividend rate be fixed at \$2 per year "within the foreseeable future."

As mentioned above, Kansas, as of January 1, 1949, charged \$1,476,844 to earned surplus. This charge represented debt discount and expense and call premiums on retired securities and electric plant acquisition adjustments which had previously been the subject of annual charges to income under amortization programs previously set up. As a result of this change in accounting procedure income deductions commencing January 1, 1949, are substantially reduced, with consequent equivalent increase in reported net income. Correlatively with this increase

SECURITIES AND EXCHANGE COMMISSION

in book earnings figures, the change in accounting procedure results in a decrease in capitalization ratios applicable to the equity securities.

The aggregate charges of \$1,476,844 to earned surplus for these adjustments, if retroactive effect thereof is given for the 12-month period ended April 30, 1949, would reduce income deductions by \$203,790 and would increase reported common stock earnings to \$1,831,064 or \$2.62 per share for 700,000 shares instead of \$2.32 per books. Or, to put the matter the other way round, if the adjustments had not been made on January 1, 1949, and the company had continued its program of amortization of debt discount and expense and Account 100.5 previously followed, earnings for common stock would be \$1,525,378 or \$2.18 per share on the 700,000 shares to be outstanding. Thus, as a result of these adjustments, capitalization ratios and earnings for common stock subsequent to January 1, 1949, will not be on a comparable basis with those of previous years.⁶

Request for Exemption from Competitive Bidding

[1,2] As previously noted, American and Kansas have requested an exemption from the competitive bidding requirements of Rule U-50 with respect to the sale of the entire block of 550,000 shares of the common stock of Kansas or, in the alternative, some

lesser amount of such stock to be determined during the course of negotiations. American and Kansas contend that if they are required to sell at competitive bidding, they cannot and will not attempt to sell the entire block of 550,000 shares at one time, but will offer the stock in two separate transactions at least ninety days apart. At the same time, however, as stated, they request an exemption in the event that they should determine to negotiate a sale of less than the entire block. The reasons advanced in support of this alternative request are not persuasive. These reasons include the opinion of the management that a better price would be received in a negotiated deal than under competitive bidding and that greater flexibility is obtained under a negotiated deal than under competitive bidding. It should be noted that these reasons are those conventionally advanced in connection with requested exemptions. They were considered and rejected by the Commission at the time of the adoption of Rule U-50, and subsequent experience has amply demonstrated the practicability of the rule and shown the contentions to be without merit. In addition, it is urged that an exemption should be granted here because we granted an exemption to American in connection with its sale of 150,000 shares of Kansas in May, 1948. We granted that exemption, of course, in the light of the conditions then pre-

⁶ Kansas also originally charged earned surplus as of January 1, 1949 with an additional amount of \$845,152 on account of cost of benefits for past services of employees under its retirement plan which previously it had been charging to operating expenses over a 10-year period beginning in 1946. This matter was explored in the hearings and our staff, in the light of applicable accounting standards and regulatory requirements under the Holding

Company Act as to the protection of investors opposed this adjustment. Kansas thereupon reversed the entry and now proposes to continue with the 10-year program, consistent with the previous practice.

See Accounting Research Bulletin No. 36, November, 1948, by the Committee on Accounting Practices, American Institute of Accountants. See also our 13th Annual Report for the Year Ended June 30, 1947, p. 128.

RE AMERICAN POWER & LIGHT CO.

vailing which were substantially different from those presently obtaining. Each request for exemption must be and is considered by us on its own terms and on the basis of the circumstances existing at the time of its consideration by us and a grant of an exemption for a particular sale at a particular time is not, and obviously cannot be, a basis for claiming an exemption for a different sale at a different time.⁷

[3,4] We are inclined to give weight to another of the reasons advanced but not to the extent to which it is relied on by the applicants. It is the contention that the Kansas stock is relatively unseasoned, that the company is relatively small and little known, and that the market for it is consequently only moderately absorptive. This would in our opinion furnish insufficient basis for the kind of blanket exemption requested by the applicant. However, we believe that it is of sufficient weight so far as marketing the entire block would be concerned, to make it not unreasonable for the management to determine, as it has, not to undertake a sale of the entire block at competitive bidding. The question therefore becomes one of whether the sale of the entire block at one time is sufficiently desirable to make an exemption appropriate on that ground alone. In this connection the testimony indicates the opinion of the management that the sale of the shares in two or more transactions might have the effect of delaying compliance with § 11 (b) (2) of the act and with our

order of dissolution thereunder, since American's § 11 (c) Plan, if approved, cannot be consummated until American makes the investments previously referred to in Florida, Texas Utilities and Pacific. Although under the Plan American is permitted to borrow the funds necessary for such investments, American states that it is reluctant to inject the complications which would result from such borrowings. In addition Kansas urgently needs money for construction purposes, and a pro rata reduction in the number of shares to be sold by Kansas would in some measure interfere with the planned financing of its construction program. Accordingly, it appears to be in the best interest of all parties concerned to sell all of the securities at one time. Under these circumstances we have determined to resolve our doubts as to the requested exemption for the sale of the entire block of 550,000 shares if consummated within the immediate future.

Whether or not the applicants can sell the entire block of 550,000 shares under the exemption is something which we are not in a position to and need not determine. We determine only that if such sale can be affected an exemption is justified but that there is no basis for an exemption for a sale of less than that amount. We wish to make it clear also that if the management should choose to act under the limited exemption here granted and attempt to sell the entire block, its negotiations in that attempt will not afford a basis for modification of our conclusion as to the inappropriateness of an exemption for a sale of less than the full amount.

⁷ Re Public Service Co. of New Hampshire, Holding Company Act Release No. 9102, May 20, 1949.

SECURITIES AND EXCHANGE COMMISSION

Other Matters

The issuance and sale of the additional 100,000 shares of new common stock of Kansas has been presented to the State Corporation Commission of the state of Kansas. That Commission has entered a memorandum opinion under which Kansas is authorized to sell the additional shares of common stock, consummation of the sale being subject to the issuance by the Kansas Commission of a supplemental order authorizing such sale on terms to be specified in such supplemental order. Accordingly, our order will be conditioned upon the receipt of a further order from the State Corporation Commission of the state of Kansas.

Our order will also contain a condition that the proposed sale of common stock shall not be consummated until a further order shall have been entered by us in the light of the record as completed with respect to the maintenance of competitive conditions, including the price to be paid American and Kansas and the underwriters' commissions.

The companies have not yet submitted evidence in support of fees and other expenses incurred and to be incurred in the matter. We shall, therefore, reserve jurisdiction with respect thereto.

American has requested that our order recite that the sale and transfer of the Kansas common stock are necessary or appropriate to the integration or simplification of the holding company system of which American is a member and necessary to effectuate the provisions of § 11 (b) (2) of the act, all in accordance with the meaning and requirements of the Internal Revenue Code, as amended, including § 1808 (f) and Supplement R thereof. The disposition by American of the Kansas common stock is a step in compliance with our order of August 22, 1948 issued under § 11 (b) (2) of the act. Accordingly, if a supplemental order is issued, upon a finding that the proposed transactions meet the requirements of the act, such order will contain the itemization and specifications requested.

An appropriate order will issue.

UNITED STATES COURT OF APPEALS, DISTRICT OF COLUMBIA
CIRCUIT

Kentucky Broadcasting Corporation,
Incorporated

v.

Federal Communications Commission
(Mid-America Broadcasting
Corporation, Intervenor)

No. 9856

— US App DC —, 174 F2d 38

April 6, 1949

APPPEAL from Federal Communications Commission order granting authority to broadcasting corporation to construct and operate a new standard station and denying application of other broadcasting company for same facilities; affirmed.

Radio, § 3 — License grant — Priority of application.

1. The Federal Communications Commission, in ruling on two mutually exclusive applications for the same facilities involving the construction and operation of a standard radio broadcast station, is not precluded from consideration of priority of application so long as that consideration is not the controlling factor, p. 75.

Procedure, § 36 — Stare decisis — Effect on Commission decision.

2. The doctrine of stare decisis is not generally applicable to decisions of administrative tribunals, p. 76.

Radio, § 3 — Licenses — Preference of existing licensee — Program equality.

3. There is no occasion to indulge in a presumed preference in favor of an existing radio station licensee over a newcomer to the field where it does not appear that the program proposals of two competing applicants for facilities to construct and operate standard radio broadcasting stations are equally meritorious, p. 76.

Appeal and review, § 29 — Radio station application — Federal Communications Commission order.

4. The Federal Communications Commission may not be said to have acted arbitrarily or capriciously in choosing the one of two competitors for a radio station broadcasting license who offers programming most suited to local interests, p. 76.

Procedure, § 32 — Denial of rehearing.

5. The Federal Communications Commission has not abused its discretion

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when it denies a rehearing on allegedly newly discovered evidence after having entered a decision granting authority to construct and operate a radio broadcasting station and denying a competitor's application for the same facilities, where there is no attempted explanation of why the facts were not discovered prior to the original hearing, no verified statement of facts accompanying the petition, and no proof that the allegedly newly discovered facts would, if true, in any way alter the Commission's decision, p. 77.

Radio, § 9 — Licenses — Reopening of proceeding.

6. Proof of the establishment of two new daytime radio stations after the filing of mutually exclusive applications for authority to establish a new daytime station does not constitute changed conditions such as would warrant a reopening of the record after the Federal Communications Commission has granted one application and denied another, if the establishment of the two new stations added nothing to a determination of which of the two competing applicants would provide better service, p. 78.

APPEARANCES: Joseph F. Zias, of Washington, D. C., with whom Philip G. Loucks, Verne R. Young, and Maurice M. Jansky, all of Washington, D. C., were on the brief, for appellant; Max Goldman, Assistant General Counsel, Federal Communications Commission, of Washington, D. C., with whom Benedict P. Cottone, General Counsel, Federal Communications Commission, Richard A. Solomon, Attorney., Federal Communications Commission, and Miss Mary Jane Morris, Attorney, Federal Communications Commission, all of Washington, D. C., were on the brief, for appellee; Andrew G. Haley, of Washington, D. C., with whom James A. McKenna, Jr., of Washington, D. C., was on the brief, for intervenor, Mid-America Broadcasting Corporation, urging affirmance.

Before Clark, Prettyman, and Proctor, CJJ.

CLARK, CJ.: By this appeal we are asked to review a final decision of ap-

pellee, Federal Communications Commission released on October 24, 1947, which granted the application of intervenor, Mid-America Broadcasting Corporation, for authorization to construct and operate a new standard broadcast station, and which denied the application of appellant, Kentucky Broadcasting Corporation, Inc., for the same facilities.

On November 16, 1944, Mid-America filed with the Commission its application for authorization to construct and operate a new standard broadcast station at Louisville, Kentucky, on the frequency of 1,080 kilocycles with one kilowatt power night and 5 kilowatts power day.¹ This application by Mid-America was held in status quo until the lifting of the Commission's "wartime freeze policy" on October 7, 1945.

On September 24, 1945, appellant (Kentucky), then and now licensee of Station WINN at Louisville, operating on 1,240 kilocycles with 250 watts power, unlimited time, filed its applica-

¹ The record shows that Mid-America had applied for these same facilities as early as February, 1940, and that such application had been granted and a construction permit issued by the Commission. However, due to the

Commission's dismissal without prejudice of applications for modification of the construction permit, an action requested by Mid-America, the permit expired in 1942.

KENTUCKY BROADCASTING CORP. v. FEDERAL COM. COM.

tion for a change in frequency from 1,240 kilocycles to 1,080 kilocycles and for an increase in power from 250 watts to one kilowatt night and 5 kilowatts day (the identical facilities sought by Mid-America).

There was also on file with the Commission an application by the Indiana Broadcasting Corporation, Inc., licensee of Station WIBC, Indianapolis, Indiana, operating on the adjacent frequency of 1,070 kilocycles for an increase in power from 5 to 50 kilowatts.

These three applications (two of which were mutually exclusive) were consolidated for hearing before a presiding officer. This hearing took place on April 22 through 25, 1946. On January 15, 1947, the Commission adopted a proposed decision looking to a grant of Mid-America's application and a denial of that of Kentucky. By order of April 4, 1947, the Commission severed and granted the application of Indiana, thus leaving for comparative consideration the mutually exclusive applications of Kentucky and Mid-America. The validity of this severance order is not challenged by any party to this appeal and is not in issue in the case.²

Exceptions and requests for oral argument on the proposed decision having been filed, oral argument was held before the Commission en banc on April 24, 1947. Briefs were thereafter filed with the Commission by Kentucky and by Mid-America. On October 24, 1947, the Commission released its final decision granting the application of Mid-America and denying that of Kentucky. Following that final decision, Kentucky filed with the

Commission (1) a petition for rehearing based on alleged newly discovered evidence, (2) a request for oral argument before the Commission en banc, and (3) a supplemental request for oral argument. By memorandum opinion and order released April 12, 1948, the Commission denied these three requests and Kentucky promptly appealed to this court. Intervenor, Mid-America, is currently operating Station WKLO at Louisville as the result of the grant appealed from herein.

We have examined the comparatively small record before us in this case and see no ground for disturbing the decision of appellee Commission. We shall consider briefly below a few of the many assignments of error raised by appellant. All other contentions of appellant not specifically mentioned herein are, of course, considered insubstantial.

[1] Kentucky complains that it is "manifestly clear" that the Commission in ruling against it "gave consideration and controlling weight to extralegal considerations," namely, that the Commission in its decision attached undue importance to the fact that Mid-America had formerly been granted a permit to construct the facilities it now operates.³ As a preliminary, we wish to state that the Commission's prior rulings with regard to the same applicant for the same facilities cannot properly be characterized as "extralegal considerations." But, be that as it may, study of the record and of the several opinions of the Commission makes it clear that this factor was definitely not given controlling, or even substantial, weight below, but rather

² Cf. *Mansfield Journal Co. v. Federal Communications Commission* (1949) — US App DC —, 173 F2d 646.

³ See footnote 1, *supra*.

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was mentioned in passing by the Commission in support of its comment that Mid-America was not then seeking for the first time to render broadcast service to the Louisville area. We feel the Commission acted properly in this respect and that Kentucky's contention is not supported by the record. We know of no rule of law which absolutely precludes the Commission from *any* consideration of the priority of applications filed with the Commission so long as that consideration is not the controlling factor in arriving at a final decision as between two mutually exclusive applications. It was not the controlling factor in this case.

[2, 3] Appellant calls attention to the Commission's prior decision in *Re Valdosta Broadcasting Co.*,⁴ and complains of the Commission's failure to follow that decision. In the *Valdosta Case* the Commission granted the application of an existing licensee and denied the mutually exclusive application for new service and indicated in its decision that, all other factors being equal, it would prefer an existing licensee to a newcomer. A preliminary answer to Kentucky's claim that the Commission erred in not following its *Valdosta* decision is the rule of law that the doctrine of *stare decisis* is not generally applicable to the decisions of administrative tribunals.⁵ However, even assuming that the Commission is bound by its own prior determinations, the *Valdosta Case* is factually distinguishable from the instant case. In the *Valdosta Case* the Commission's decision makes it clear that

there the program proposals of the two competing applicants were equally meritorious. That is not true in the present case, as will be seen below, and accordingly there was no occasion to indulge in the presumed preference of an existing licensee over a newcomer.

[4] The Commission expressly found that on the basis of superior local programming the application of Mid-America was to be preferred over that of Kentucky. This finding seems to have been the chief determinative factor in the case, if any one factor can safely be called the deciding one in a case such as this.⁶ We find ample and substantial evidence of record to support the finding that Mid-America's proposed service would better serve the community needs of Louisville and environs than would that of Kentucky. Kentucky is, and was at the time of the proceedings below, a network affiliate. Mid-America proposed, and is now presumably providing, new, local, non-network program service. Mid-America proposed the carrying of musical programs by local organizations such as the Louisville Philharmonic Orchestra and the Louisville Summer Opera. Kentucky's proposals contained no such local musical service. Mid-America planned to broadcast religious programs from local churches. The religious programs carried and proposed by Kentucky were solely network programs. Mid-America proposed various locally originated programs of cultural, dramatic, and forensic nature. There were no comparable proposals by Kentucky.

⁴ Pike & Fischer R. R. 619 (1946).

⁵ See *State Airlines v. Civil Aeronautics Board*, No. 9748, decided by this court on April 6, 1949, — US App DC —, 174 F2d 510.

⁶ The proposed decision in this case con-

tained the express statement that "several factors motivated the Commission's conclusion that the application of Mid-America Broadcasting Corporation is to be preferred."

KENTUCKY BROADCASTING CORP. v. FEDERAL COM. COM.

Mid-America's proposed coverage far exceeded that of Kentucky with respect to farm programs of immediate interest to the rural populace in areas immediately surrounding Louisville. As to local news service, Kentucky had no members of its staff assigned to gathering local news and obtained such news only from the Associated Press wire service. On the other hand, Mid-America proposed to establish a staff of three to gather and disseminate local news, this in addition to providing the usual wire service news broadcasts. It is thus apparent that the Commission was completely correct in deciding in favor of Mid-America on the basis of far superior local program proposal.

A further factor which the Commission considered and mentioned in its written decisions but which was not given controlling weight was that of local residence of the stockholders and directors of the two competing applicant corporations.⁷ In this respect the two applicants hung in equal balance and there is no doubt that the Commission could have properly found that either or both met the requisite residence requirements. Kentucky allegedly had 70 per cent of its stock owned by "established residents of Louisville," whereas 55.6 per cent of Mid-America's stock was owned by Louisville residents. However, the record shows that the great majority of Mid-America's stockholders and directors are long-time residents of Louisville, several of whom were born and raised in Louisville or nearby in Kentucky. Almost all of Kentucky's

stockholders and directors came to reside in Louisville since or during Word War II. On this state of the record, we certainly would not be justified in ruling that the Commission arbitrarily or capriciously chose Mid-America over Kentucky on the basis of residence.

[5] Appellant also contends that the Commission abused its discretion in denying a rehearing on alleged newly discovered evidence. Appellant argues that intervenor lacked the proper character qualifications of a licensee, that the effect of intervenor's proposed network affiliation on its program proposals should have been considered, and that the effect of the establishment of two new stations in Louisville upon intervenor's ability to render the service it proposed should have been taken into consideration.

As to the evidence concerning character qualifications of intervenor, there was no attempted explanation of why the alleged facts were not discovered prior to the original hearing, no verified statement of facts accompanying the petition, and no proof that the alleged newly discovered evidence would, if true, affect the decision of the Commission. Section 1.893(a) of the Commission's Rules and Regulations provides that: "Where the existence of newly discovered evidence is claimed, the petition must be accompanied by a verified statement of the facts, together with the facts relied on to show that the petitioner, with due diligence, could not have known or discovered such facts at the time of the hearing."⁸ Almost identical language

⁷ It is, of course, generally true that persons living in a community have a better knowledge of local civic affairs, acquaintance

with community activities, and understanding of local needs and desires.

⁸ 1 Pike & Fischer R. R. 51:415.

UNITED STATES COURT OF APPEALS

is contained elsewhere in the rules and regulations.⁹ Under these circumstances, we do not regard the Commission's action in striking that portion of the petition for rehearing as erroneous.

As to the possibility of intervenor's securing a network affiliation in the future and the effect of that possible future affiliation on intervenor's proposed local program service, that contingency was thoroughly discussed and considered by the Commission prior to its final decision. The testimony of one of Mid-America's directors and stockholders before the presiding officer was to the effect that Mid-America would welcome and accept network affiliation *only* if such an arrangement would not be "at the sacrifice of local programs." There was ample and uncontroverted evidence to support the Commission's finding that Mid-America's proposed local programming would not suffer from a possible future network affiliation.

[6] As to the effect upon Mid-America's operation under its license of the establishment of two new daytime stations in Louisville which will presumably render local non-network service, the record in this proceeding

shows nothing as to the effect of these new stations on intervenor's proposed service and the establishment of the two new stations certainly adds nothing to a determination of which of two competing applicants will provide better service. The Commission was correct when it stated: "We do not believe that such factors constitute changed conditions warranting a re-opening of the record; nor do we believe that they effect [*sic*] Mid-America's ability to fulfill its over-all program proposals."

Further, it is noteworthy that the operation by Mid-America of the facilities which it has been authorized to provide will in no way affect the operation by Kentucky of Station WINN as it is presently licensed to operate that station.

We hold that the Commission in this case accorded the parties hereto a full and fair comparative hearing as required by the opinion of the Supreme Court in *Ashbacker Radio Corp. v. Federal Communications Commission*,¹⁰ and that appellant's contentions are without legal merit. Accordingly, the decision of the Commission is

Affirmed.

⁹ Section 1.390(e) provides in part: "Where the petition is based upon a claim of newly discovered evidence, it must be accompanied by a verified statement of the facts relied upon, together with the facts relied on to show that the petitioner, with due diligence, could

not have known or discovered such facts at the time of the hearing." 1 Pike & Fischer R. R. 51: 235.

¹⁰ (1945) 326 US 327, 90 L ed 108, 61 PUR NS 466, 66 S Ct 148.

Consolidated Edison Company of
New York, Incorporated

v.

Milo R. Maltbie et al.

299 NY 172, 86 NE2d 161

April 20, 1949

A PPEAL from order of appellate division of Supreme Court
staying temporary order fixing electric rates pending re-
view; order reversed and motion for stay denied.

Appeal and review, § 73 — Stay of rate orders — Effect of recoupment provisions.

An order of the Commission fixing temporary rates should not be stayed pending a review of the determination where, in view of the recoupment provision of § 114 of the Public Service Law, great and irreparable damage could not result to the utility company, even though the sums that the company might be entitled to recapture under final rates might be large.

APPEARANCES: Sherman C. Ward, New York city, George H. Kenny, Samuel R. Madison, Albany, and Joseph J. Doran, Rochester, for respondents-appellants; Jacob H. Goetz, New York city, James P. Hill, Norwich, Richard Joyce Smith and Cameron F. MacRae, New York city, for petitioner-respondent.

LOUGHRAN, C.J.: The parties to this article 78 proceeding are the Public Service Commission of the state and Consolidated Edison Company of New York, Inc., a gas and electric corporation subject to the Public Service Law, Consol Laws, Chap 48. Pursuant to § 114 of that statute, the Commission on December 30, 1948, fixed temporary rates to be charged by the company for electric service supplied to its

consumers. Enforcement of that order of the Commission has been stayed by an order of the appellate division which is now before us for review upon the following questions certified (1949) 275 App Div 732, 87 NYS2d 918:

"1. Does the order [for a stay] as granted contain the requisite specific findings required by subdivision 2 of § 23 of the Public Service Law to justify the stay?

"2. Do the facts found in the order as granted constitute great and irreparable damage within the meaning of those terms, as used in subdivision 2 of § 23 of the Public Service Law?"

Section 23 requires that an order suspending an order of the Commission fixing rates "shall contain a specific finding based upon evidence sub-

NEW YORK COURT OF APPEALS

mitted to the court and identified by reference thereto, that great and irreparable damage would otherwise result to the petitioner and specifying the nature of the damage" (subd 2). The stay in question was granted by the appellate division, because in the judgment of that court there were serious questions as to whether the Commission in fixing the temporary rates had exceeded the powers conferred upon it by § 114 of the Public Service Law, and because the rate provisions of that section, as read by that court, "were not designed and are not adequate to meet the situation herein presented where the loss, if the [temporary rate] order is void, may well reach astronomical figures." 275 App Div 731, 732, 87 NYS2d 83, 85.

The answer to these misgivings is to be found, we think, in the construction which this court put upon § 114 in *Bronx Gas & E. Co. v. Maltbie* (1936) 271 NY 364, 375, 14 PUR NS 337, 343, 3 NE2d 512, 516. Section 114, we there said, "forces the Public Service Commission to consider the returns from the temporary rate and to establish the permanent rate, or the final rate, accordingly; that is, if the temporary rate has proved to be too low, the final rate must make it up to the company. Over what time it

is necessary to provide a rate sufficient to make up the loss, or to include the take-up, is a matter of adjustment, machinery, and method. These matters are all in the hands of the Public Service Commission, which may increase or modify a rate to meet the circumstances at any time."

The recoupment proviso of § 114 is applicable to the temporary rates here in question. Hence, "great and irreparable damage" cannot result to the company from the temporary rate order, notwithstanding the Commission made its own estimate of the depreciation of the used and useful physical property of the company instead of accepting the figures shown on the company's records. Hence, too, the magnitude of the sums that the company may be entitled to recapture does not demonstrate either the existence of "great and irreparable damage" or the inadequacy of the recoupment proviso of § 114. See *Staten Island Edison Corp. v. Maltbie* (1944) 292 NY 611, 55 NE2d 376.

The order should be reversed, with costs and the motion for a stay denied. The questions certified are answered in the negative.

Lewis, Conway, Desmond, Dye, Fuld, and Bromley, JJ., concur.

Order reversed, etc.

WISCONSIN PUBLIC SERVICE COMMISSION

Re Wisconsin Power & Light Company

2-U-2933

May 3, 1949; hearing reopened for additional evidence May 24, 1949

APPPLICATION of power and light company for authority to increase rates; increase in water heating rate allowed, other increases denied.

Return, § 27 — Common stock earnings.

1. The reasonableness of a power company's request for a rate increase was tested by the use of \$1.55 per share common stock earnings, which it claimed necessary to maintain an adequate market for its stock, although the company had reported earnings of \$1.35 a share when its stock had a market value 10.2 times earnings while, at a later date, the price-earnings ratio was 11.1, p. 84.

Return, § 70 — Increase to offset losses — Other department earnings.

2. Losses or inadequate earnings of one utility department or of nonutility operations may not be made good by increasing the rates of another branch of a utility's service, p. 85.

Rates, § 354 — Electricity — Water-heating service.

3. A power company was allowed an increase in its rates for water-heating service where it appeared that, because of a substantial increase which had occurred in production costs affecting this type of service, the present rate was discriminatory as against users of other classes of service, p. 86.

Return, § 87 — Reasonableness — Power company.

4. A power company's return of approximately 6 per cent on its over-all investment was considered reasonable, p. 87.

Rates, § 630 — Emergency increase.

5. No emergency rate increase will be allowed, under a statute permitting the establishment of such rates when deemed necessary to prevent injury to the utility or the public, where no facts are brought to light which warrant a finding that an emergency exists, p. 87.

By the COMMISSION: Wisconsin Power and Light Company, Madison, operating as an electric public utility in the south central part of the state, filed an application with the Commission on January 5, 1949 for authority to increase water-heating rates .3 cent per kilowatt hour, and to increase bills of all customers by addition of a sur-

charge of 5 per cent. The Commission on January 13th issued a notice of investigation and hearing and assessment of costs.

APPEARANCES: Wisconsin Power and Light Company, by William Ryan, Attorney (February 3rd) and R. J. Sutherland, Attorney (February 21st), both of Madison.

WISCONSIN PUBLIC SERVICE COMMISSION

In opposition: Municipalities of Plymouth, Reedsburg, Waupun, Juneau, Wisconsin Dells, Sun Prairie, Brodhead, Mazomanie, Mt. Horeb, Belmont, Stoughton, New Glarus, Sauk City, and Evansville, by P. A. Reynolds, Rate Consultant, Madison; Central Wisconsin Electric Cooperative and Waushara Electric Cooperative, by Wendell McHenry, Attorney, Waupaca; Mt. Horeb Electric Utility, by Wade Boardman, Attorney, Madison; city of Stoughton, by B. A. Mjelde, City Attorney; city of Portage, by Phil Owens, City Attorney; town of Blooming Grove, by Albert E. Brandt, Attorney, Madison; A. T. Jorgenson, taxpayer, McFarland; Rock County Electric Cooperative Association, by H. A. Haried, President, Emmett Yale, Director, and George S. Geffs, Attorney, Janesville; city of Edgerton, by John T. Roethe, Attorney; Marquette Electric Cooperative, Friendship; city of Adams, by Fulton Collipp, Attorney, Adams; city of Wisconsin Dells, Water and Light Commission, by Robert Dougherty, Attorney; Plymouth Utilities, by Thomas McGuire, Attorney; Waupun Utilities, by James E. Towne, Superintendent; Reedsburg Utility, by Larry Spraetz; Sauk City Utility, by A. R. Kahn; city of Juneau, by Ferd Lindeman; city of Brodhead, by Dale Johnson; city of Janesville, by Henry Traxler, City Manager, and Robert J. Cunningham, City Attorney; village of Roxbury, by Martin Roelke; Evansville Water and Light Department, by E. S. Cary, Superintendent; New

Glarus Water and Light Department, by Herman Pfund; city of Mauston, by Charles P. Curran, City Attorney.

Of the Commission staff: A. R. Colbert, Chief, accounts and finance department; George P. Steinmetz, Chief, engineering department; H. J. O'Leary, Chief rates and research department; Magnus Andersen, Accountant; E. M. Downey, Rate Analyst.

The filing of briefs was completed on March 23rd.

Opinion

The requested rate increase of 3 mills per kilowatt hour for water heating would amount to approximately \$170,000 a year. The proposed 5 per cent surcharge is estimated to total \$823,000 a year. The total rate increase then is nearly \$1,000,000.

In passing upon the reasonableness of the application for an increase in electric rates, it is necessary to review the operations and the investment of the entire company and its several departments. This is because the company operates electric, gas, water, and steam-heating utilities, engages in merchandising and jobbing activities, and owns security investments and physical property not used in utility service. Many of the expenses are joint and must be allocated to the appropriate utility or nonutility function on a basis deemed equitable. This procedure is followed in the records of the company so that the results of operations for the year 1948, with revenues and expenses repriced to give effect to cost levels at the end of 1948, were as follows:

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	Electric	Gas	Water	Heating
Revenues	\$17,453,931	\$1,670,611	\$255,006	\$47,796
Expenses:				
Operation and Maintenance	8,971,620	1,470,725	93,020	75,117
Depreciation	1,376,756	99,811	22,640	3,271
Amortization of tangible acquisition adjustments	63,300	16,028	8,972	—
Operating taxes	1,827,263	68,789	32,677	1,589
Income taxes ¹	1,564,396	(23,582)	26,108	(12,420)
Total expenses	13,803,335	1,631,771	183,417	67,557
Operating income	\$3,650,596	\$38,840	\$71,589	\$(19,761)
	Merchandising and jobbing	Investments	Other	Total company
Revenues	\$1,139,273	\$72,671	\$14,150	\$20,653,438
Expenses:				
Operation and maintenance	1,079,724	—	1,195	11,691,401
Depreciation	858	—	2,295	1,505,631
Amortization of tangible acquisition adjustments	—	—	—	88,300
Operating taxes	9,851	190	6,135	1,946,494
Income taxes	20,317	11,298	1,883	1,588,000
Total expenses	1,110,750	11,488	11,508	16,819,826
Operating income	\$28,523	\$61,183	\$2,642	\$3,833,612

¹ Amounts, by utility departments, differ from company Exhibit No. 32 due to allocation herein of proportionate part of income taxes to nonutility income.

The net property investment in each utility department and nonutility function is also shown by the company's records. By allocating the net current assets and miscellaneous deferred

debits and credits, the total investment in each utility and nonutility function is obtainable. These data are shown as of December 31, 1948, in the following table:

	Electric	Gas	Water	Heating	Total
Utility plant in service	\$63,748,992	\$4,904,609	\$1,786,377	\$132,768	\$70,572,746
Less depreciation reserve and contributions	12,019,569	1,407,964	368,303	80,212	13,876,048
Net utility plant in service	51,729,423	3,496,645	1,418,074	52,556	56,696,698
Construction in progress	4,895,239	262,717	69,304	66	5,227,326
Utility plant held for future use	24,230	1,287	2,488	—	28,005
Utility plant acquisition adjustments	1,996,589	622,394	106,468	—	2,725,451
Net current assets	6,285,404	776,864	77,982	22,303	7,162,553
Net deferred debits and credits	139,585	80,705	(43,140)	(99)	177,051
Total	\$65,070,470	\$5,240,612	\$1,631,176	\$74,826	\$72,017,084

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	Merchandising and jobbing	Nonutility investments Security investments	Other Physical property	Total
Property investment less reserve \$	—	\$1,376,650	\$390,658	\$1,767,308
Net current assets	292,104	(5,594)	(2,098)	284,412
Net deferred debits and credits ..	—	—	—	—
Total	\$292,104	\$1,371,056	\$388,560	\$2,051,720
Summary				
Total utility		\$72,017,084		
Total nonutility		2,051,720		
Total company		\$74,068,804		

The company has outstanding total securities and reinvested surpluses aggregating \$74,068,804. When this capitalization is allocated to the sev-

eral utility departments and nonutility functions, the amount assignable to the electric department is \$65,070,470, as shown in the following table:

	Bonds and notes	Preferred stock	Common stock Par	Premium and surpluses	Total
Electric utility	\$36,427,000	\$11,872,000	\$12,738,130	\$4,033,340	\$65,070,470
Gas utility	2,416,000	789,000	1,546,060	489,352	5,240,612
Water utility	959,000	311,000	274,320	86,856	1,631,176
Heating utility	4,000	28,000	32,530	10,296	74,826
Total utilities	\$39,806,000	\$13,000,000	\$14,591,040	\$4,620,044	\$72,017,084
Nonutility functions ...	—	—	1,420,530	631,190	2,051,720
Total company	\$39,806,000	\$13,000,000	\$16,011,570	\$5,251,234	\$74,068,804

[1] Testimony was presented on behalf of the company by Jay Samuel Hartt, consulting engineer, that the common stock of the company should earn \$1.55 a share in order to maintain an adequate market therefor. Exhibit 26 introduced by Hartt shows price earnings ratios for common stocks of 11 utilities deemed generally comparable to the company. Price earnings ratios for these companies ranged from 7.1 to 13.5 and averaged 10.1, as compared with a price earnings ratio for the company's common stock of 10.2. The latter ratio was based on a market value of \$13.75 per share on December 31, 1948, and reported earnings of \$1.35 a share for the twelve months ended September 30, 1948. The book value of the stock at De-

cember 31, 1948 was \$13.28 per share. Market quotations on the stock on April 26, 1948, were 15¼ bid and 16¼ asked. Using a market of \$15 per share and reported 1948 earnings of \$1.35 a share results in a price earnings ratio of 11.1.

In the light of these data, earnings of \$1.55 per share of common stock appear higher than necessary. However, the reasonableness of the company's request for an increase in rates will be tested by the use of the \$1.55 per share common stock earnings claimed necessary by it.

The income derived by the company from each department and the earnings per share of common stock allocable thereto are shown below:

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	Operating income	Interest and income deductions	Preferred dividends	Common stock earnings	Shares of common	Earnings per share
Electric utility	\$3,650,596	\$1,142,467	\$542,441	\$1,965,688	1,273,813	\$1.54
Gas utility	38,840	76,649	36,056	(73,865)	154,606	(.48)
Water utility	71,589	29,732	14,197	27,660	27,432	1.01
Heating utility	(19,761)	152	1,306	(21,219)	3,253	(6.52)
Total utility	3,741,264	1,249,000	594,000	1,898,264	1,459,104	1.30
Nonutility functions	92,348	—	—	92,348	142,053	.65
Total company	\$3,833,612	\$1,249,000	\$594,000	\$1,990,612	1,601,157	\$1.24

() Denotes red figure.

[2] It is seen that the electric department earned \$1.54 a share on the common allocated to it, which is within one cent per share of the amount claimed as reasonable earnings for the stock. The lower earnings for the stock as a whole result from the loss or reduced earnings in other departments, particularly the gas utility, which showed a loss of 48 cents per share on the stock allocated to it. Under the law (Milwaukee v. Railroad Commission, 206 Wis 339, PUR 1932B 339, 240 NW 165) the losses

or inadequate earnings of another utility department or of nonutility operations may not be made good by increasing the rates of another utility department.

The reasonableness of the company's request for an increase in electric rates may be tested by another approach. Again using the company's claim of \$1.55 earnings per share of common stock, it is found that the total return requirements of the company would be:

	Capital	Return requirement %	Amount
Bonds and notes	\$39,806,000	3.14	\$1,249,000 ¹
Preferred stock	13,000,000	4.57	594,000
Common stock:			
Par value	16,011,570)		
Surplus	5,251,234)	11.67	2,481,793
Total common	21,262,804)		
Total	\$74,068,804	5.84	\$4,324,793

¹ Includes all interest and income deductions.

Included in total capitalization and surplus of \$74,068,804 are certain non-productive assets (debt discount and expense, utility plant acquisition adjustments, etc.). If these be omitted, the total capital that is, or soon will be, productively employed amounts to \$71,138,297, computed as follows:

Utility plant in service less depreciation reserve and contributions in aid of construction	\$56,696,698
Construction in progress	5,227,326
Investments	1,376,650
Other physical property	390,658
Net current assets	7,446,965
Total	\$71,138,297
Return requirement as above	\$4,324,793
Per cent return	6.08%

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Thus it is clear that, if the company earns 6.08 per cent on the book value of its tangible assets, it will have sufficient earnings to cover all interest and preferred dividend requirements and earnings on common stock equal to \$1.55 a share, or 11.67 per cent on the book value of common. The actual earnings of the electric department will now be compared with this return percentage.

The company claims an electric rate base of \$69,089,436, comprised of the following items, as shown in Exhibits 22 and 24-A:

Electric plant in service and electric plant acquisition adjustments, December 31, 1948	\$65,586,000
Projects completed but not closed into plant in service at December 31, 1948	3,142,666
Electric plant additions authorized for 1948 but not complete as of December 31, 1948	6,255,089
Incomplete retirements in connection with foregoing item	(395,968)
Electric plant additions authorized for 1949 construction required to adequately carry the load existing on the system in 1948	4,026,554
Retirements in connection with above	(650,000)
Total	\$77,964,341
Deduct:	
Depreciation reserve	(11,731,323)
Contributions for extensions ..	(268,893)
Add:	
Materials and supplies	2,002,515
Working capital, 124% of operation and maintenance expenses	1,122,796
Rate base	\$69,089,436

() Denotes red figure.

The claimed rate base includes \$9,-235,675 for projects not yet completed and in service and for some of the projects no expenditures have as yet been made. If a similar calculation is made, including only construction expenditures actually made to

December 31, 1948, plus net current assets on hand which include amounts available for future construction, a total of \$62,910,066 results, computed as follows:

Electric plant in service ¹	\$63,748,992
Deduct:	
Reserve for depreciation ¹	11,750,676
Contributions in aid of construction	268,893
Net electric plant in service	51,729,423
Electric construction in progress (including \$3,142,666 completed but not closed into plant in service at December 31, 1948)	4,895,239
Net current assets allocated to electric department	6,285,404
Total	\$62,910,066

¹ Differs slightly from company figures and those in annual report to Commission due to use herein of 1948 repriced revenues in allocation of common plant and reserves to departments.

The above amount of \$62,910,066 includes \$4,912,666 for property not yet in service. This is comprised of \$1,752,573 (\$4,895,239-\$3,142,666) of construction in progress but not completed and \$3,160,093 of net current assets in excess of the company's claim for working capital and materials and supplies, which amount may be considered as available for future construction. It is clear then that the proper electric rate base of the company would be less than \$62,910,066.

[3] The proposed increase of 3 mills in the water-heating rate will produce additional revenues of \$170,000 and additional net income of \$100,000. Because of the substantial increase that has occurred in production costs, the Commission considers the present water-heating rate to be discriminatory. It is considered that if the proposed increase is granted, such discrimination will be eliminated.

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[4] With such increase in the water-heating rate, the company will have an estimated total return of \$3,751,000. This figure will yield a return of 5.96 per cent on net electric investment of \$62,910,000 and would allow for common stock earnings of \$1.61 per share on the \$12,738,130 of common stock allocated to the electric department. The foregoing earnings are based upon drought conditions existing in 1948 which increased the company's operating cost by almost \$760,000. A substantial improvement in water conditions would result in even greater earnings.

[5] The company urges that the rate increase is warranted on grounds that an emergency exists. Under § 196.70, Statutes, the Commission "may by order when deemed by it necessary to prevent injury to the business or interests of the people or any public utility in case of any emergency to be judged of by the Commission, temporarily alter, amend, or with the consent of the public utility concerned, suspend any existing rates, schedules, and order relating to or affecting any public utility" There are no facts in the present situation of Wisconsin Power and Light Company warranting a Commission finding that an emergency exists.

The Commission finds:

1. That the facts in the present case do not warrant emergency action by the Commission under § 196.70, Statutes.

2. That the present rates of Wisconsin Power and Light Company for water-heating service are unreasonable and unlawful because they are discriminatory in the light of substantial increases in electric production costs.

3. That the rates ordered herein for such service are not discriminatory and are reasonable and lawful.

4. That the net investment in electric plant in service, electric plant under construction, and net current assets allocated to the electric department was \$62,910,066 as of December 31, 1948, and that said amount exceeds the amount the Commission normally would consider as reasonable for rate base purposes.

5. That the adjusted electric net operating income for the year 1948, after the increase in water-heating rates, will be \$3,751,000, which is approximately 6 per cent on the \$62,910,066 set forth in the foregoing finding.

6. That, in view of the above findings, no further increase in electric rates is warranted.

The Commission concludes:

That an appropriate order should be issued in accordance with the foregoing findings of fact.

ORDER

It is therefore ordered:

1. That Wisconsin Power and Light Company be and hereby is authorized to substitute for its present water-heating rates the following schedule effective for service rendered after the first meter readings following the date of this order:

Off-peak Water Heating Service

Schedules Rw-1 and Cw-1

Section (b)

An energy charge of 1.1 cent net per kilowatt hour used by the controlled service storage unit of each heater.

(No other changes)

Schedule Rw-2

(a) First 133 kw. hr. or less used per mo. \$2.65 gr., \$2.40 net per month
All over 133 kw. hr. used per mo. 1.1¢ net per kw. hr.
Minimum bill, \$2.65 gr., \$2.40 net per month

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- (b) For installations in excess of 86 gallons capacity, there shall be added to the above rate (a) for each gallon of additional capacity 1.67 kw. hr. to the monthly primary step and 3¢ net to the primary rate and to the monthly minimum bill.
(No other changes)

2. That in all other respects the application herein be and hereby is denied.

MONTANA PUBLIC SERVICE COMMISSION

Re Valley Water Company

Docket No. 3693, Order No. 2074

June 3, 1949

APPPLICATION by water company for authority to increase rates; authority granted.

Expenses, § 97 — Owner's salary — Water company.

1. A utility owner is entitled to be reimbursed for personal services performed by him on the same basis as any other person, and his salary is an operating expense rather than return on investment, p. 90.

Valuation, § 38 — Rate base determination — Purchase price factor.

2. Evidence of purchase price should be considered in determining a rate base, but it is not controlling or entitled to great weight in an investigation for determining present value, p. 90.

Valuation, § 25 — Rate base determination — Present value of property.

3. The Commission is required to determine the present value of a utility's used and useful property for rate-fixing purposes and the value to be determined is the value at the time of hearing, p. 92.

Valuation, § 17 — Rate base determination — Formula used.

4. No fixed method of determining present value is prescribed for rate-making purposes, and the Commission must weigh the various values in the light of the facts surrounding them and give such weight to them as appears proper, p. 92.

Return, § 115 — Water company.

5. A return of 4.22 per cent was held not to be excessive for a water company, p. 94.

APPEARANCES: H. C. Pauly, of the firm Murphy, Garlington & Pauly, Attorneys at Law, Missoula, appearing for the applicant; J. D. Taylor, Attorney at Law, Hamilton, appearing for the applicant.

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Protestants: Joseph Iten, Mayor of town of Hamilton, appearing for the town of Hamilton; Claude A. Johnson, Attorney at Law, Hamilton, appearing for George Elliot, Dr. Park Wills, Ross Erickson, Miles Romney,

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Howard C. Packer, Marshall Anderson, Joseph Iten, and other water users of Hamilton; Ross Erickson, R. F. Holt, E. F. Grimes, W. H. Deffenbaugh, Ted Reinebolt, F. J. O'Donnell, C. H. Knowles, H. M. Birrer, all of Hamilton, appearing for themselves.

Other APPEARANCES: Edwin S. Booth, Secretary-Counsel, appearing for the Board.

By the COMMISSION: On December 15, 1948, the Valley Water Company filed an application for authority to increase rates covering the flat rate service in the city of Hamilton, Montana, for water charges and to increase rates on meter charges for consumption in excess of 500,000 cubic feet per month. This application was set for hearing at Hamilton on April 19th and notice of public hearing was sent, ten days prior to the hearing, to each of the papers published in Hamilton, the city clerk, board of county commissioners, clerk of the school board, and ten copies sent to the chamber of commerce with request that their membership be notified and ten copies mailed to the water company with the request that they be posted so as to give notice of the hearing. At the time of hearing, several protestants appeared and requested continuance of the hearing. In view of the fact that the proper notice was given to the water users for the required legal period of time and no sufficient reason in support of such motion for continuance being made, the Board denied the motion for continuance.

The applicant presented oral and documentary evidence in support of its application. The protestants offered evidence in support of the protest, both by means of cross-examina-

tion and direct testimony. From the evidence offered by all parties and the files and records of this Commission, the following facts appeared:

The Valley Water Company was initially constructed in 1896 by Marcus Daly. The initial construction was apparently in order to furnish water for his private property and in addition render service to the town of Hamilton. The line was initially constructed with kalomein coated steel pipe and obtained its water supply by gravity from Skalkaho creek. The water system was sold to various parties during the period of time from its construction until 1929 when it was acquired by the Montana Power Company. The Montana Power Company sold the system to the present owners, A. S. Thane and Margaret L. Thane in 1942, who have operated the system since that time as a partnership.

General improvements have been made in the line during the time in the way of replacment of mains and extension of the distribution system. The gravity supply from Skalkaho creek has been discontinued and the system is now served by deep wells and a reservoir.

The water system, on December 31, 1948, had 1,006 consumers. Of this number, 838 were residential consumers, all of whom are served on a flat rate schedule. The commercial and industrial consumers are on a metered basis. The flat rate schedules of the company, on file with this Commission, were placed in effect in 1935, but were not actually approved until November 6, 1939. These rates constituted reductions from the previous schedule which had been in effect since 1916. Basically, the present rates pro-

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vide for a flat rate covering a 4-room dwelling of 85 cents with a charge of 15 cents for each additional room and corresponding rates for additional facilities, such as baths and laundries. The proposed rate would fix the rate for a 4-room dwelling at \$1.25, 5-room dwelling at \$1.50, with the rate for each extra room being 15 cents. Rates for extra facilities would remain the same. The proposed rates constitute a return to the rate which was in effect from 1916 to 1935. The meter rate schedule now in effect was approved in 1935. The proposed schedule does not provide any change until after 500,000 cubic feet per month is used. The present sprinkling rate is $12\frac{1}{2}$ cents per 100 square feet per season or $62\frac{1}{2}$ cents for 500 square feet. The proposed rate is 75 cents for each 500 square feet per season or an increase of $12\frac{1}{2}$ cents per 500 square feet.

The increase in basic rate of a 4-room house is 40 cents per month. This is an increase of 47 per cent on the basic rate. The increase on a house of five rooms or over is 50 cents per month or a 50 per cent increase on the basic rate. There is no increase in the room charge over 5 or for extra fixtures and the percentage of increase would be less for the greater number of rooms or fixtures. The company stated that the percentage of increase amounts to slightly less than 20 per cent on the gross revenue.

[1, 2] The 1948 Annual Report shows operating income of \$27,958.27 for the year. Total operating expenses amounted to \$23,694.54, leaving a gross income of \$4,263.73. Included in the operating expense is an item of \$4,000 to Mr. Thane, one of the own-

ers, for all his services in managing and operating the company. He testified that that was a reasonable amount for the services he performed and if some one else were hired, that that amount would be a proper salary. A utility owner is entitled to be reimbursed for personal services performed by him on the same basis that any other person would be paid. The item of \$3,500 per year for depreciation does not appear to be unreasonable. No question was raised as to the reasonableness of operating expenses and from an examination, they appear to be kept in accordance with the uniform system accounts prescribed by the Commission.

Wages for 1949 will be \$55 per month more than in 1948. There have been some increases in the cost of materials and supplies, which will result in some increase in operating expense.

Based on the customers accounts for 1948, and considering some increase in operating costs, including an increase in fixed wages of \$650 a year, the company estimates that the net return a year on the proposed rates would be approximately \$9,000 instead of \$4,263.73 shown in 1948 or an increase of about \$4,737 for a year. Of course, the result for 1949 will not reflect such increases as only one-half of 1949 service will be affected by the increases granted.

The question presented in this hearing is thus narrowed to whether a return of approximately \$9,000 per year is a fair and reasonable return on investment. This raises the basic question of the plant value on which the applicant is entitled to earn a fair return.

Mr. Thane testified that an appraise-

RE VALLEY WATER CO.

ment had been made by the engineers to obtain a value of the plant in 1948 when the acquisition of the plant by the city was considered. The mayor of Hamilton was called and identified an engineer's report and appraisal. Over objection of the mayor and other protestants, this engineer's report was received in evidence. The report made for the city states that the appraisal is made on prices as of May 1, 1948. It is stated that "an appraisal of this type gives the estimated cost to reproduce the system at current prices, and reflects the depreciation, both physical and functional, that has accrued in the property."

This report shows a reproduction cost, as of May 1, 1948, of \$281,577. After consideration of actual depreciation accrued, a value of \$214,457 is determined. This value includes \$1,500 for water rights not now used for the benefit of the public. Deducting this amount, we arrive at a figure of \$212,957 of reproduction cost new, less depreciation, as of May 1, 1948. Testimony shows that there has been no material change in values of water system supplies and equipment during the past year.

Mr. Thane, after stating his qualifications as an engineer, testified that he made his own appraisal of the system based on May 1, 1948, figures. His estimate of value, as shown in the exhibit prepared and introduced by him, showed a reconstruction cost new of \$344,040 and a depreciated reproduction new value of \$262,667. This figure likewise includes \$1,500 for a water right which is not now used in the utility. His exhibit adds amounts for overhead, equipment, work in progress, "working capital"

and "going value." Considering these items, an option was given to the city to purchase the system at \$232,000. This option was not exercised and has expired. In addition, Mr. Thane stated he would accept the engineer's report previously referred to for the purposes of this hearing. We will not further consider Mr. Thane's valuation figures.

The protestants on cross-examination developed the fact that the actual cash purchase price for this plant and the one at Plains, Montana, was \$50,000 in 1942, but there were other considerations, such as long employment of the purchaser by the parent company. It was also developed that the assessed valuation of the plant for tax purposes, at present is about \$38,000.

The Annual Report filed for 1948 shows a plant value of \$169,978.42 as of December 31, 1948. Mr. Thane testified that he carried the plant value figures of the previous owner and had added the additions from time to time. The report also shows depreciation reserve of \$30,333.40 which deducted from the plant value would leave a depreciated book value of \$139,645.02. Examination of the reports back to 1939 shows that the plant value as of January 1, 1939, was carried at \$167,592.49. Since that time adjustments have been made for property removed from service or additions made. These values, if correctly set up, would reflect the original cost of the property. This Commission was not created until 1913 and no requirements for reporting existed during the time the plant was being installed. These values do not reflect present values. The accounts have been kept in accordance with our System of Uniform Accounts

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for Water Utilities. The account on Cost of Plant and Equipment is intended to be a continuing account reflecting original cost of the plant value. It does not reflect changes due to increase or decrease in plant values. It would show the values as of the time the various portions of the system were constructed. The value of the same property would vary depending on the time the investigation was made. It is common knowledge that value of property on a replacement value new, less depreciation, is considerably greater now than in 1939.

Protestants called several witnesses who stated that they believed the present rates were sufficient. One of the witnesses was a metered water customer and not affected by the present application. Some of the witnesses considered the rate of return on the basis of the \$50,000 cash consideration paid in 1942 by Mr. Thane, and on that basis considered the present return adequate. The general rule is that evidence of purchase price should be considered, but that it is not controlling or entitled to great weight in an investigation for determining present value. Another witness considered that all revenue paid to another was return to the owner on investment. An individual owning a utility is to be treated the same as a municipality or a corporation in the allowance of operating expenses. Salary received for services is an operating expense and cannot be considered as return on investment.

[3,4] The Montana supreme court has stated the rule to be followed by this Commission in determining values for rate-making purposes in Tobacco River Power Co. v. Public Service

Commission (1940) 109 Mont 521, 33 PUR NS 151, 155, 98 P2d 886. That ruling is binding on this Commission. The court said:

"No specific and exclusive method for determining value is mentioned in the Montana Code. Section 3884, Revised Codes, reads as follows: 'The Commission may, in its discretion, investigate and ascertain the value of the property of every public utility *actually used and useful for the convenience of the public*. In making such investigation the Commission may avail itself of all information contained in the assessment rolls of various counties, and the public records of the various branches of the state government, or any other information obtainable, and the Commission may at any time of its own initiative make a revaluation of such property.'

"The power of the state in regulating utility companies is very similar to the power of the state in eminent domain proceedings. Under the power of eminent domain a state may condemn and acquire private property for public use, but before doing so must compensate the owner. In other words, must make him whole which merely means that it pays him the value of the property which is condemned and taken. *In exercising its power of regulating rates of a utility company it appraises the value of the property, determines from evidence the cost and expense of operating the utility, allows for depreciation and fair return on investment*, and thereupon fixes rates for service to be rendered, which in effect is a restriction on the use, enjoyment and profits which the owner of the utility may have. In effect, the order of the Public Service

RE VALLEY WATER CO.

Commission limits and regulates the use of the property so far as profit is concerned and quality of service rendered, but leaves the management of the business in private hands with the attendant obligations of rendering service, meeting costs of operation and exaction of government in the way of taxes. The Commission cannot under the law fix rates so low as to result in taking of property without just compensation to the owner.

"The law is well settled in all jurisdictions, including Montana, that rates must be just and reasonable, and likewise the return to the utility company on its investment and for service rendered must be fair, just, and reasonable. (Great Northern Utilities Co. v. Public Service Commission, 88 Mont 180, PUR1930E 134, 293 Pac 294; Minnesota Rate Cases [1913] 230 US 352, 57 L ed 1511, 33 S Ct 729, 48 LRA NS 1151, Ann Cas 1916A 18; Smyth v. Ames [1898] 169 US 466, 42 L ed 819, 18 S Ct 418.) No great difficulty should be experienced in determining fair value of the property of the utility company and just and reasonable rates which may be charged if both parties to a proceeding to determine the ultimate facts are candid, reasonable and fair with each other.

"It is observed from § 3884, *supra*, that considerable latitude is allowed the Public Service Commission in determining value. Neither the Public Service Commission nor the utility company is limited to or bound by any particular method in arriving at the solution of the question of value. It must be born in mind always that the ultimate fact to be determined is value

upon which rates are based, which must of course be done under proper legal procedure and restrictions.

"The cost of reproduction new, less depreciation, is usually regarded as one of the most important, if not the dominant factor, in the determination of value. (51 C.J. 17.) Under the section of the Montana Code just cited, assessment rolls are likewise admissible as evidence of value, but of course are not exclusive. When the state condemns property of a landowner it frequently resorts to assessed valuations as evidence, but more often than not the jury will determine damages and valuation in excess of that set out in the assessment rolls. Original cost, assessment values, cost of reproduction new, prudent investment theory, public records mentioned in § 3844, *supra*, and opinions of value are all means to an end, namely the determination of value. We can find no error in the procedure of the court in allowing evidence of cost of reproduction new, less depreciation, to be admitted as evidence of value.

"The next assignment of error is that the court erred in determining the value of the utility on the date of the trial, rather than on the date the Commission issued the order complained of. On April 17, 1936, the appellant took evidence of the reasonableness of the rates, and the trial on the appeal from its order took place on May 24, 1938. On account of the long period of time intervening it is important that this question be settled, as considerable change could, and did, take place within that period of time." (Italics supplied.)

MONTANA PUBLIC SERVICE COMMISSION

See also:

Great Northern Utilities Co. v. Public Service Commission, 88 Mont 180, PUR1930E 134, 293 Pac 294.

From the foregoing statements by our court, it is definite and certain that this Commission is required to determine the present value of the property used and usable in the utility business. It is also certain that the value to be determined is the value at the time of hearing. The Commission should and correctly did receive the evidence offered as to sale in 1942, assessed value, reports to the Commission and engineer's appraisals. No fixed method of determining present value is described. The Commission must weigh the various values in the light of the facts surrounding them and give such weight to them as appears proper.

[5] The appraisalment figure submitted by the engineers as to the value of the plant, on May 1, 1948, is based on the principles above stated. The appraisalment was made for the purpose of determining the value the city might expect to pay in purchase of the plant, whether by agreement or condemnation. This value would be the same as the company is entitled to earn a return on. While other persons might arrive at various values, no reason appears which would justify any substantial variance. This figure, adjusted, amounts to \$212,957. Based on this figure, a return of \$4,263.73 yields a return of 2.002 per cent on the present depreciated value. A net in-

come of \$9,000 per year would yield a return of 4.22 per cent. Under the principle stated above, it is not necessary for us to state what a reasonable return should be. It is sufficient to state that a return of 4.22 per cent is not excessive and should be allowed. The proposed rates do not appear to be unreasonable or discriminatory and will not return more than a reasonable return on the present value of the plant less accrued depreciation.

From the evidence and for the reasons stated above, the Commission makes the following

Findings of Fact

1. That the Valley Water Company is a partnership, consisting of H. S. Thane and Margaret L. Thane. That the company operates public utility water service in the city of Hamilton, Montana and vicinity.

2. That the income, after paying operating expenses, received from the water service is insufficient to make a fair rate on the value of the utility property. That in order to make a fair return additional revenues derived from increased rates are necessary.

3. That the application for increase in rates applied for will not result in the earning of more than a fair rate on the value of the property used and usable in the public utility service. That the rates are fair, reasonable, and nondiscriminatory.

The Board concludes as a matter of law that the application should be granted.

Massachusetts Department of Public Utilities

v.

Kenneth Hudson, Doing Business As Hudson Bus Lines

D.P.U. 8666
July 15, 1949

I NVESTIGATION as to propriety of motor carrier rates for bus service; increased rates disapproved.

Rates, \$ 417 — Bus service — Threat of curtailment — Over-all revenues.

A motor carrier should not be permitted to obtain a bus rate increase in one city by a threat to discontinue or curtail service without proof that the additional revenue is necessary on an over-all basis even though operations in the city, where the carrier also provides school bus operation of substantial magnitude, are conducted at a loss and the city is reconciled to increases if adequate service is to be retained.

APPEARANCE: James H. Sullivan, Esq., for Kenneth Hudson, d/b/a/ Hudson Bus Lines.

By the DEPARTMENT: This is an investigation by the Department on its own motion of the propriety of the increased rates and charges for bus transportation by Hudson Bus Lines in the city of Peabody.

Respondent operates over a large territory in Massachusetts and New Hampshire, running 576,608 bus miles in this state in 1948. He had 84 busses on hand at the end of the year and a gross operating income during the year of \$454,123. The proposed increased rates apply only to a short route within the city of Pea-

body, over which respondent operated some 37,440 bus miles in 1948.

No evidence was presented at the hearing that would enable us to find that respondent's entire operations were carried on at less than a reasonable return. A cursory analysis of his balance sheet and earning statement raises very serious questions which we believe he should be called on to answer before any such finding is made. It does appear from the testimony that his operations in Peabody are conducted at a loss. However, such operations include a school bus operation of relatively substantial magnitude. The particular route concerned here utilizes only one bus of

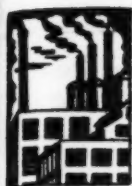
MASSACHUSETTS DEPARTMENT OF PUBLIC UTILITIES

the seven garaged in Peabody, the rest being used in the school bus operations. There was no satisfactory allocation of costs as between the two types of operation. On the record, it is just as possible to conclude that the losses on the Peabody operation are due to the school bus contract as it is to find that they are due to respondent's regular route operations.

The increased fares were filed after conference of respondent with the officials of the city of Peabody, and the mayor of that city appeared and explained that the city was reconciled to such increases if adequate service was to be retained thereby. We cannot accept this testimony as decisive. The burden is still upon the respondent to prove that he needs the additional revenue. And if the threatened curtailment of service is not justified, there is a plain remedy upon appeal

to this Department. We feel that it would establish a very dangerous precedent for us to permit a carrier to obtain a rate increase by a threat to discontinue or curtail its service without any proof that the additional revenue is necessary on an over-all basis. If the Peabody run is made at a loss, the proof as to which is, as we have said, not satisfactory, the rates should doubtless be adjusted so that other riders will not be burdened with the costs of service to this particular group. But that does not dispense with the necessity of either proof of over-all need for revenue or else a corresponding compensating readjustment somewhere else in the system.

In view of the foregoing circumstances and after hearing upon due notice, investigation, and consideration, it is hereby [ordered that proposed rates be disallowed].



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.



Aerial Ladder Leaves Truck Bed Clear When Not in Use

THE J. H. Holan Corporation, Cleveland, Ohio, has announced a new low cost aerial ladder for general service bodies. It is adaptable to any standard service body with or without a high roof enclosure and is designed so that when it is not in use the truck bed is clear for other types of work. The ladder is constructed of two sections of 12, 13, or 14 feet and extends to a maximum overall height of 26 feet. Instead of rotating, the ladder can be extended either forward or to the right side of the body. In working forward there is one locked position for the ladder. In working to the right side there are four locked positions. An adjustable frame is used for securing the ladder in the side positions. When the ladder is not in use this frame can be folded against the side of the body to give a clear working bed.

Safety as well as simplicity has been stressed in the design and construction. An adjustable platform keeps level in all ladder positions. A belt loop on the fly section of the ladder holds a safety belt. Truss rods extending the full length of the ladder are equipped with insulators.

Three models of the Holan aerial ladder are available. They have maximum extended heights from the ground of 22, 24, and 26 feet with platform heights of 19, 21, and 23 feet, respectively.

The company believes this ladder will be of valuable service where economy is a major factor and overhead work must be combined with other uses for the same body.

Lube Jack Offers New Line of Earthworm Boring Machines

A NEWLY improved line of Earthworm boring machines has been perfected by Lube Jack Company, according to N. D. Johnson, president.

The Earthworms, according to Mr. Johnson, will now permit laying of pipe lines of all types up to 3 in. in diameter and up to 150 ft. in length, without the need of breaking surface ground for such operations. In many applications, it is possible to use pipe or conduit as drill stem sections and leave it underground as a permanent installation.

The Earthworms are said to be ideal for laying lines under highways, parking lots or other sites where surface excavations would be costly and inconvenient. Accuracy of the units, when drilling lines as long as 150 ft., can be maintained within one inch of the target area. In operation, water is forced through the

drill stem as a lubricant and to wash back the cuttings. Three types of bits are available to work in all types of soil. A choice of three-power rated models is available.

For complete information, write Lube Jack Company, 1415 14th street, Santa Monica, California.

Dravo Awarded Contract for \$28,000,000 Power Plant

DRAVO CORPORATION has been awarded the contract as construction agent for the \$28,000,000 power plant of Duquesne Light Company, Pittsburgh, to be built at Elrama, Pennsylvania, four miles above Clairton on the Monongahela river, it was announced recently.

Initially, the plant will contain two 95,000 kilowatt steam turbine generators, largest to be specified for the Duquesne Light system, and will add 190,000 kilowatts to the system's present 802,000 kilowatts capacity, an increase of more than 23 per cent.

Currently being designed by the Duquesne Light's engineering staff, the plant is scheduled to be under construction by Dravo early next year. The completion date will be about mid-year 1952.

Indianapolis P. & L. Sponsors Model Home for "Better Living"

INDIANAPOLIS has been selected for further developing a new program to show that families at any income level can enjoy "better living through better planning" of their homes, according to an announcement by H. T. Prichard, president of the Indianapolis Power and Light Company.

Four model homes in a wide range of price classes are being built by four well known Indianapolis builders as a part of the program. The houses will be opened for public inspection in October.

The complete planning of the homes, from original design to decoration and equipment, has been coordinated under the sponsorship of the Indianapolis Power and Light Company and the Better Homes Bureau of the Westinghouse Electric Corporation.

Dry Type Unit-Substation

A NEW line of air cooled unit-substations is announced by Marcus Transformer Company, Inc. The complete power package consists of a dry type transformer, primary protection, as well as secondary breakers and required metering equipment. A choice is offered of various types of primary and secondary

(Continued on page 22)

Mention the FORTNIGHTLY—It identifies your inquiry

protective equipment to meet the customer's individual needs.

The transformer section is constructed throughout with class B and C heatproof insulation, such as fibre-glass, mica, porcelain, new Johns-Manville Quinterra, resulting in a unit having overload capacities unobtainable previously.

The complete absence of hazardous oil or toxic liquid affords exceptional safety and makes this equipment ideal for installation in hospitals, schools, hotels, industry, and any other place where safety and convenience are important factors.

It is available in sizes from 100 to 2000 KVA inclusive, both single and three phase, in voltages up to 15,000 volts.

Further information may be obtained from the manufacturer, Hillside, N. J.

U. S. Rubber Issues Catalog on Line of Transmission Belting

A NEW 28-page catalog giving detailed design, engineering and performance data for its line of transmission belting has been published by the mechanical goods division, United States Rubber Company.

Tables on belt speeds, arc of contact, friction, horsepower correction, and service factors are included in the manual, together with hints on the proper selection of a belt and the procedure for analyzing belt drives.

New Booklet Describes Air-Cooled Transformers

DRY type air-cooled transformers are described and illustrated in Standard Transformer Company's new booklet just off the press. Both class A and class B insulated dry type transformers are presented. Complete line of class B transformers has been redesigned to include remodeled cases. Weights, dimensions, and full technical data are included.

Free copies can be obtained from Standard Transformer Company, Warren, Ohio. Ask for bulletin No. S-202A.

Water Heater Service Manual Revised

IN recognition of the substantial progress made in the design of gas water heaters and their controls since 1938, a completely revised and greatly expanded third edition of the "Gas Appliance Service Water Heater Manual" has been completed by American Gas Association. Containing valuable suggestions for properly installing and servicing gas water heaters, the manual is a handy reference both for training purposes and for use by the serviceman in the field.

Preparation of the new volume was undertaken by A.G.A. Committee on Gas Appliance

(Continued on page 24)



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**For Guy and Suspension Lines
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Uniform • Strong • Long-Lived • Economical

Sunstrand Wire Rope is made on the most modern wire rope machines in use today. All types and sizes are available including 1 x 7 construction galvanized steel strand made to ASTM specifications.

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Some interesting facts about bills !



The bills of these birds never change.

The peculiar bird's bill at the left is long and thin. The duck's bill is always sort of flat. The stork's bill always has a pouch attached.

Each species retains the same distinctive bill year after year.

It is a far different story, however, with consumer's bills. As you so well know, some of them change. Some customers' bills may show marked increase . . . or decrease . . . in kilowatt-hour usage over a short period of time.

A current analysis of your bills, therefore, may disclose certain trends that will be of considerable value to you in planning your rate and promotional programs.

Many such bill analyses are compiled for utilities by the Recording and Statistical Corporation. The tabulations are made on specially designed electro-mechanical equipment. As many as 200,000 bills can be analyzed each day by trained personnel.

FREE booklet for you

We shall be glad to give you the facts about

this accurate and economical method of compiling customers' usage data.

Write today for "The One Step Method of Bill Analysis." It may save you time and money in the months to come.



This Bill Frequency Analyzer—developed especially for utility usage data—automatically classifies and adds in 300 registers—in one step!

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100 Sixth Avenue

New York 13, N. Y.

Installation and Service Manuals, J. M. Pickford, Northern Indiana Public Service Company, Hammond, Indiana, chairman. Scope of the manual has been broadened to include information helpful to persons in the LP-gas industry. Most of the service material is applicable to all types of gases.

Published in convenient pocket-size and containing 296 pages with 167 illustrations, the manual is available from American Gas Association at \$1.50 a copy. Also available at the same price are two other gas appliance service manuals in the same series: "Volume I, Gas Ranges, Fifth Edition 1947" and "Volume III, Commercial Kitchen Appliances, Second Edition 1947."

Midwest Automatic Introduces "Magic Wire"

A NEW kind of wire for electric controls, using numbers instead of color-coding to increase the ease and accuracy of installations and maintenance, was announced recently by the Midwest Automatic Control Co., 510 Third street, Des Moines, Iowa.

Called "Magic Wire," each wire has its code number imprinted in bright red on every inch of the yellow insulation.

Compared with color-coded wire, President Harry Frankle said the numbered wire has two main advantages: (1) The numerals do not wash or wear off, nor become discolored with age; and (2) there is no limit on the number

of different numerals available.

With terminals numbered to correspond with the numerals on the wires, installation costs and trouble-shooting time can be reduced by as much as 50 per cent, Mr. Frankle declared.

Pocket-sized Volt-Ammeter Offered by Pyramid Instrument

A COMPLETE deviation in split-core volt-ammeter design is being introduced by the Pyramid Instrument Company, in its new pocket type Amprobe. It measures current without interrupting service. A plastic finger trigger opens the transformer probes and clamps around the conductor thus measuring the current in that circuit. To measure voltage a pair of test leads are inserted into the front-mounted pin-jacks and connected to line.

The Amprobe is completely insulated. No metal parts come in contact with the operator.

For details write the Pyramid Instrument Company, 49 Howard street, New York, N. Y.

New Rope Swivel Announced

A NEW type of wire rope swivel that has double roller bearings and will swivel under full load has just been announced. The unit was originally developed for use by utility companies and is now being offered for all rope applications. Some of the features of these swivels are: both thrust and radial roller bear-

(Continued on page 26)

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is too difficult to solve with the combined efforts of your bankers, your attorneys and ourselves. We work for:

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First in heavy-duty truck sales for 17 straight years!



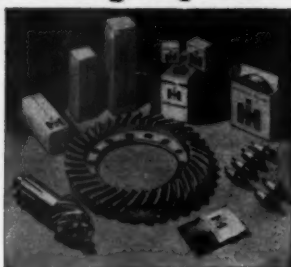
1. **Rated first in value by America's best exacting truck buyers!**

For 17 straight years, registration figures for new trucks with GVW ratings over 16,000 lbs. have shown International Trucks in first place. Would International get that vote of confidence unless they were the best value in the heavy-duty truck field?



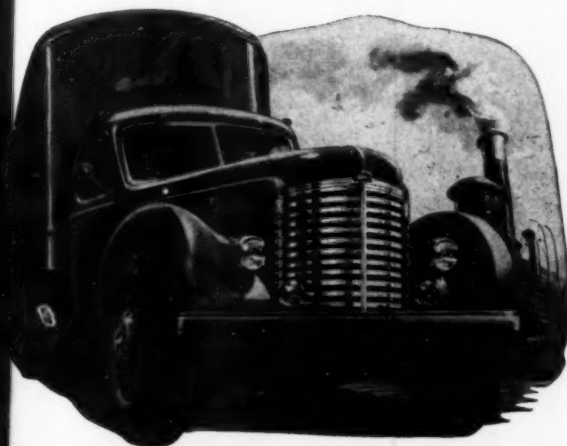
2. **Backed up by the nation's largest exclusive truck service organization!**

4,700 International Truck Dealers and 170 Company-owned Branches and Service Stations are ready with factory-trained mechanics, precision-engineered parts, and special tools to give International Trucks the diagnosis, service, testing and repairs to correct any trouble.



3. **Precision-engineered parts help keep the leader leading!**

Replacement parts have a place on the all 'round truck team that keeps Internationals ahead of the field. They're precision-engineered parts, just like the originals. They're made to fit and do a better job and last longer.



5. **You don't stay first in sales for 17 straight years unless you're first in value!**

No matter what model International Truck you buy—heavy, light or medium-duty—you get the same basic values that have made International Trucks first in the heavy-duty truck field for 17 straight years.

You get a rugged truck, not weakened by compromise with

passenger car engineering.

You get a truck specialized by truck engineers to meet your specific requirements. You have 22 basic models and 1,000 truck combinations to choose from.

See your nearest International Truck Dealer or Branch before you buy any truck.



4. **Inexpensive factory-rebuilt exchange units are important, too!**

Owners of heavy-duty International Trucks also save money with complete International units, reconditioned and factory-rebuilt. They are priced way below new ones and covered by new unit International warranty.

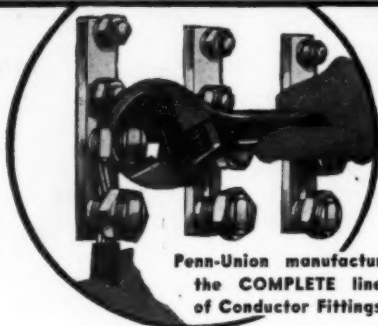
International Harvester Builds
McCormick Farm Equipment
Farmall Tractors... Mohr Trucks
Industrial Power... Refrigerators and Freezers



INTERNATIONAL TRUCKS
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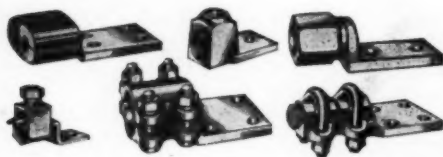
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the COMPLETE line
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Also Tee Connectors; Cable Taps; Straight, Parallel, Elbow and Cross Connectors; Bus Supports, Clamps, Spacers; Grounding Clamps; Service Connectors, etc. *Penn-Union connectors are the choice of leading utilities*—because every fitting is mechanically and electrically dependable.

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CONDUCTOR FITTINGS

ings; completely streamlined bodies; heavy load capacity in relation to size; permanent lubrication; and replaceable parts.

Descriptive literature may be obtained from Flexo Machines Company, 456 N. Aberdeen street, Chicago 22, Illinois.

Sales of Gas Water Heaters Almost Even With Year Ago

NATIONAL sales of gas water heaters are only two per cent below a year ago May and over two and a half times greater than prewar, it was made known recently by James F. Donnelly, A. O. Smith Corporation, Kankakee, Illinois, and chairman of the "Court of Flame" promotion committee.

Mr. Donnelly stated that sales of gas water heaters this June were 121,000 compared to 122,000 a year ago June, and that during the last few months gas water heaters were about the only major appliances which were keeping their sales up to the previous year.

Westinghouse to Build Largest Portable Transformer

A \$400,000 contract has been entered into by Westinghouse Electric Corporation to build an 83,333-kva, single-phase transformer to be mounted permanently on a railroad drop-center car for the Bonneville Power Administration. This will be the largest portable transformer ever built. The unit will be used as a spare to replace temporarily any transformer of the same rating now located in any of five substations of the Bonneville Power Administration in the Portland, Oregon, district during maintenance operations or emergencies.

New Reuland Fluid-Shaft Electric Motors

A NEW development in electric motor design has been announced by the Reuland Electric Company, of Alhambra, California. The new units are called Fluid-Shaft motors and feature a single frame, integral design of motor and fluid-drive coupling.

Loads that are difficult to bring up to speed, even with special motors, are said to be accelerated easily with Fluid-Shafts, because the motor is practically up to speed before any load is applied. Because of this it is possible to use motors which can be selected closer to actual horsepower requirements. A definite saving in power is accomplished because of a considerable reduction in starting current.

Taylor Appoints Public Relations Director

WILLIAM H. CORWIN has just been appointed public relations director of Taylor Instrument Companies, according to an announcement made by Herbert J. Noble, executive vice president. Mr. Corwin joined the organization in 1942 as a member of the advertising department. Since 1943 he has edited the company's publication, "The Taylor Meteor," as well as prepared other company literature.



REMINDER —to Utility Executives

IRVING Trust's Public Utilities Department has been actively helping utilities formulate and carry out constructive financial programs geared to each company's particular needs.

This special department is staffed with men whose practical experience in the utilities field qualifies them to offer a sound, understanding, realistic approach to your problems.

TOM P. WALKER—*Vice President in charge*

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RICHARD H. WEST, *President*

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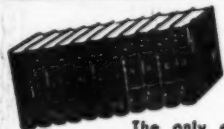
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A brief and pointed digest of the administrative rulings of the Securities and Exchange Commission under the Public Utility Holding Company Act. Issued twice each month.

A brief and pointed digest of the administrative rulings of the Federal Power Commission under the Federal Power Act and the Natural Gas Act. Issued once each month.



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Four new gasoline engines offer greatly increased power, in addition to traditional GMC extra value . . . famous four- and six-cylinder GM 2-cycle Diesels have higher compression for even greater agility and economy. New, stiffer, straight side rail frames, new wide-track axles, new broad-beam, extra comfort cabs . . . new features by the score make all-new GMC "H" models best for all heavy public utility transport. Let your nearest GMC headquarters give you complete details.

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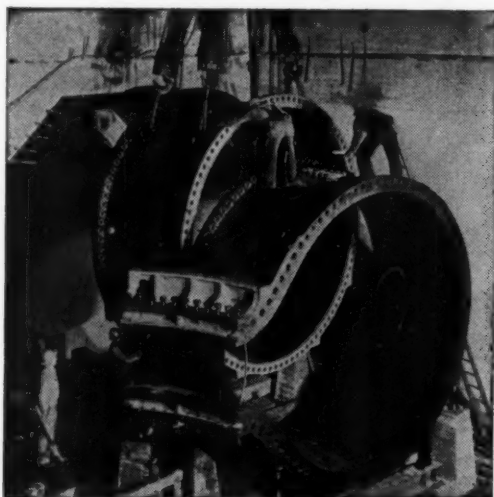
GMC
GASOLINE • DIESEL
TRUCKS

**THE INDUSTRY'S ONLY
BUMPER-BUILT
FRONT END**



Typical of GMC "H" line ruggedness are angle-braced, frame-mounted radiator grilles with top and sides of spring steel bumper stock, heavy gauge fenders, wide, thick bumpers . . . for complete front end protection, axle to emblem.

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RECORD OUTPUT FOR GRAND COULEE USING NEWPORT NEWS TURBINES

DURING 1948 the nine generating units in the west power house at Grand Coulee in the state of Washington produced 8,415,000,000 K.W.H.

Each generator was driven by a 150,000 horsepower hydraulic turbine built by Newport News.

Nine similar turbines, but of 165,000 horsepower capacity are now being built for the east power house.



WRITE FOR BOOKLET
ON "WATER POWER
EQUIPMENT"

NEWPORT NEWS SHIPBUILDING AND DRY DOCK CO.
NEWPORT NEWS, VIRGINIA

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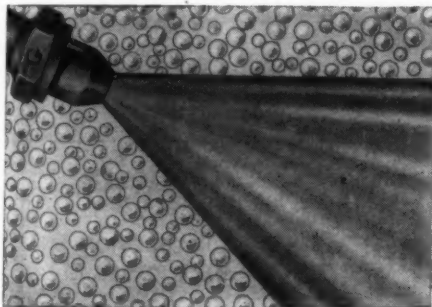
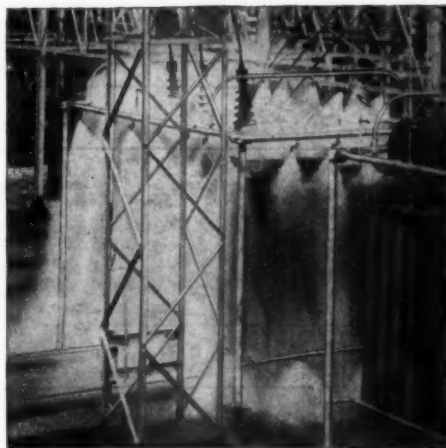
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